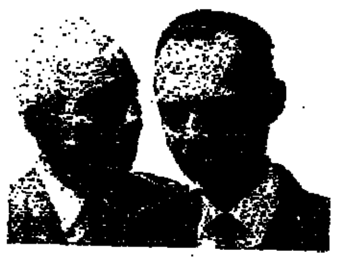
FINANCIAL TIMES



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World Business Newspaper THURSDAY OCTOBER 5 1995 D8523A

US, Europe warned on tax cuts

IMF urges against 'fiscal backsliding' as Japan told to restructure insolvent groups

By Robert Chote in Washington

The International Monetary Fund yesterday stepped into the debate over tax cuts in the US and Europe by warning that "fiscal backsliding" could undermine economic growth and unsettle financial markets.

In its latest World Economic Outlook, the IMF yesterday also urged Japanese authorities to close or restructure more insolvent financial institutions, and suggested that a further reduction in US interest rates is not "warranted".

The warning on fiscal policy was prompted by debate over tax cuts in the US, Germany and the UK. Mr Michael Mussa, the IMF's economic counsellor, said financial markets were expecting significant progress in cutting the US budget deficit.

"If these expectations were to be disappointed, then we might see an adverse reaction in bond and stock markets. There would be little monetary policy could do to offset it," he said. The fund warned that if governments eased fiscal and monetary policy too much in response to signs of a slowdown "the benefits would be fleeting and the costs high".

The IMF said interest rate moves and intervention by the world's leading central banks had helped bring the main exchange rates closer into line with economic fundamentals. Exchange rate policy will be discussed by finance ministers from the Group of Seven leading industrial countries when they meet in Washington on Saturday.

Mr Mussa said the yen had clearly been overvalued in mid-1995 and that it remained "quite a strong exchange rate now". He added that the dollar still looked a little undervalued and that a weaker D-Mark would be good for Germany and the rest of Europe.

IMF says world resilient to market turmoil ....Page 7
Warning against 'backsliding' with tax cuts ....Page 8

The IMF report argued the intervention episode showed that "co-ordinated actions to affect exchange rates can be effective against serious misalignment when economic and policy developments are supportive and the timing carefully chosen".

IMF economists have cut their forecasts of growth for most of the world's leading industrial countries since April, although they argue that this reflects a "mid-cycle pause" rather than a prelude to recession. Output in the G7 – the US, Japan, Germany, France, the UK, Italy and Canada – is expected to rise by 2.4 per cent this year and 2.3 per cent in 1996, compared with April's predictions of 3 and 2.6 per cent respectively.

The IMF, which urged the Japanese government to take tougher action on financial institutions crippled by bad loans, predicted that the Japanese economy would grow by just 0.5 per cent this year. The latest forecast was completed before last month's Y14,220bn ($136bn) stimulus package, which the fund believes has improved the prospects for recovery. The forecasts were accompanied by characteristic calls for tough action on government borrowing and caution on interest rates. The fund warned that financial markets were becoming more sensitive to the weaknesses of government policies and failures to address underlying economic imbalances.

The IMF welcomed the recognition by both the Clinton administration and US Congress that deficit reduction was essential to secure higher living standards. But it added that the significant tax cuts proposed in their packages should be delayed until substantial progress towards a balanced budget had been achieved.

Economic growth has slowed more sharply in the US than the IMF had expected at the time of its last forecast in April, but the organisation predicted that the fall in long-term interest rates since early this year was likely to boost the pace of expansion in the future.

Daiwa Bank chief under pressure to resign

By Gerard Baker in Tokyo

The Japanese finance minister yesterday suggested that Mr Akira Fujita, the president of Daiwa Bank, should resign to accept responsibility for his role in the bank's loss of $1.1bn in allegedly fraudulent bond trading at its New York branch.

The call by Mr Masayoshi Takemura, which is likely to lead to irresistible pressure for Mr Fujita's resignation, came amid embarrassing new allegations for Daiwa about the circumstances surrounding the bank's losses.

"The management must take proper responsibility," said Mr Takemura, using a form of words that usually betokens the imminent arrival of the full weight of official disapproval on the most senior executives involved in such cases.

But Mr Takemura also expressed concern about finance ministry officials' own supervision of Daiwa. "I regret that the ministry was not capable of noticing the matter," he said.

The ministry is conducting investigations into the losses, along with the Bank of Japan and the US regulatory authorities. Yesterday, officials ordered Daiwa to report results of an internal investigation by the end of the month.

The minister indicated that the Daiwa losses and their implications for Japan's fragile financial system would be a focal point of discussions at this weekend's meeting of G7 finance ministers in Washington.

Mr Takemura said he would endeavour to reassure other governments that Daiwa's loss would not adversely affect the stability of Japan's financial system as a whole.

Since news of the losses last week, Japanese banks have faced increased funding costs in international money markets as investors' nervousness about the system's financial health has escalated.

At Daiwa's headquarters in Osaka, Mr Fujita refused to bow to calls for his resignation yesterday, but hinted that he might depart once initial inquiries into

Continued on Page 14

German court rules Leeson should be sent to Singapore

Futures trader Nick Leeson should be extradited to Singapore for trial over the £860m ($1.3bn) collapse of Barings Bank, the Frankfurt regional court ruled. The decision is only the first in a series of steps required under German law before extradition can go ahead. Leeson's lawyers said they would appeal to the German Constitutional Court. Page 9

'Gas attack confession' by cult chief

Shoko Asahara (left), has started to admit he was involved in a nerve gas attack on the Tokyo subway that caused 12 deaths and left 5,500 injured last March, according to NHK public television. Asahara, head of the Aum Shinrikyo cult, faces trial this month on charges of murder and attempted murder in connection with the attack. His lawyer was quoted by NHK as saying his client was forced to confess. Page 4

Apec customs checks: Members of the Asia-Pacific Economic Co-operation forum, embracing 40 per cent of world trade, have agreed in principle to adopt common customs checks by 2000. Page 14

Italy sued over mobile phones: The European Commission started legal proceedings against Italy for failing to allow competition in domestic mobile telephone services. Omnitel Pronto Italia, an international consortium, is alleged to have suffered discrimination. Page 14; NTT in mobile phone venture, Page 15

Rhône-Poulenc Rorer, Franco-US drugs group, was last night poised to raise its £1.7bn ($2.6bn) hostile bid for Fisons as the UK pharmaceuticals group made its final plea to shareholders. Page 15

Seat, Volkswagen's lossmaking Spanish subsidiary, will cut capacity by 30 per cent in return for European Commission approval of a Pta46bn ($365m) state aid package. Page 2

US-EU trade dialogue: Leading businessmen and government officials from the US and the European Union will discuss bilateral trade and commercial relations in Seville next month. Page 4

China to boost deprived areas: China is encouraging a concerted effort to redirect resources to poorer areas to counter possible social unrest. Page 4

US may step up support for Bosnian army: The US may intensify efforts to bolster the Bosnian army if it cannot persuade all warring sides in the republic to reduce their armed forces, US defence secretary William Perry said. Page 2

Comoros coup over: French troops intervened to end the coup in the Comoro Islands. Mercenary Bob Denard surrendered his hostage, President Said Mohamed Djohar, unharmed. Page 4

UK business gloom: Companies in the West Midlands, one of the most important UK manufacturing areas, warned that business conditions were gloomier than at any time in the past two years. Page 8

GT Chile Growth Fund accused Regent Kingpin, the investment management company trying to take control of the fund, of making inaccurate statements to investors and has complained to financial regulator Imro. Page 15

Escom founder expands: Manfred Schmitt, founder of Escom, one of Europe's largest personal computer production and distribution companies, bought Hagenuk, lossmaking German telephone manufacturer. Page 15

Buy-out favoured for Tarmac: Private equity investor Schroder Ventures is supporting a management buy-out regarded as the front-runner to purchase the UK housing operations of UK builder Tarmac. Page 21

UK budget tax cuts: The International Monetary Fund warned the UK chancellor of the exchequer not to cut taxes in November's national budget unless public spending plans were curbed. Page 8

Crédit Mutuel, France's fifth-largest banking institution, reported total deposits up 8.5 per cent to FFr475.6bn ($96.9bn) during the first eight months of the year. Page 16

Bitter harvest: Bad weather and lower investment in the agricultural sector have produced Russia's worst harvest in 30 years. Page 22

■ STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	4,734.53	(-15.17)
NASDAQ Composite	1,002.50	(-17.95)
Europe and Far East		
CAC40	1,803.87	(+3.17)
DAX	2,217.76	(+12.74)
FT-SE 100	3,544.1	(+19.9)
Nikkei	18,145.08	(+2.09)

■ US LUNCHTIME RATES

Federal Funds	5 11/16%
3-mth Treas Bills: Yld	5.462%
Long Bond	105 3/8
Yield	6.461%

■ OTHER RATES

UK: 3-mo Interbank	6 3/4%	(same)
UK: 10 yr Gilt	103 7/16	(103 3/8)
France: 10 yr OAT	101.96	(102.12)
Germany: 10 yr Bund	102.22	(102.16)
Japan: 10 yr JGB	114.970	(114.556)

■ NORTH SEA OIL (Argus)

Brent 15-day (Nov)	$16.02	(16.21)

■ GOLD

New York: Comex		
Dec	$385.6	(385.2)
London:		
close	$382.95	(382.3)

■ DOLLAR

New York: lunchtime		
£	1.5825	
DM	1.43195	
FFr	4.95485	
SFr	1.15085	
Y	100.725	
London:		
£	1.5817	(1.5807)
DM	1.4363	(1.4393)
FFr	4.9818	(4.9628)
SFr	1.1548	(1.1589)
Y	101.05	(101.305)

■ STERLING

DM	2.2717	(2.275)
Tokyo close:	Y 101.12	

Austria	Sch35	Greece	Dr400	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$20	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr70	Hungary	Ft215	Neth	Fl 4.25	Singapore	S$4.30
Bulgaria	Lw110.00	Iceland	IKr220	Nigeria	Naira90	Slovak Rp	Sk60
Cyprus	C£1.10	India	Rs75	Norway	NKr18.00	S. Africa	R12.00
Czech Rp	Kc55	Israel	Shk7.80	Oman	OR1.50	Spain	Pta250
Denmark	DKr17	Italy	L3000	Pakistan	Rs40	Sweden	SKr17
Egypt	E£5.00	Japan	Y500	Philippines	Pso50	Switz	SFr3.60
Estonia	EKr 20	Jordan	JD1.50	Poland	Zl 4.20	Syria	S£50.00
Finland	FM15	Kuwait	Fils.625	Portugal (m'land)	Es230	Tunisia	Din1.500
France	FFr11.00	Lebanon	US$1.50			Turkey	L60,000
Germany	DM3.80	Lux	LFr70			UAE	Dh12.00

Banking reforms re-emerge at top of US agenda

By George Graham in Washington

A drive to liberalise US banking laws, which almost collapsed this summer, has been pushed back to the top of the political agenda and could come to a vote in the House of Representatives in the next two weeks.

Congressional leaders were yesterday working on the details of a bill they hope will satisfy all sides of the financial services industry and win approval for its central element – the repeal of the 1933 Glass-Steagall Act which bans commercial banks from selling or underwriting securities.

The Senate has already approved a more limited package of reforms, but has delayed tackling Glass-Steagall until the House resolved its differences.

The battle over reform had pitted the interests of the commercial banks against the investment banks, which dominate the securities markets. Also, insurance agents, although they had no direct stake in this struggle, were determined to block any action unless they got more protection from banks' encroachment on their own turf.

Expectations were rising this week that a new version of the bill that accounts for these interests can be framed. For the investment banking industry, overseen by its commerce committee, congressman Thomas Bliley of Virginia is close to winning agreement on a measure requiring commercial banks to put their securities activities into a separate subsidiary.

For the insurance agents, congressman Gerald Solomon, chairman of the rules committee, has secured a five-year moratorium to prevent the comptroller of currency from allowing the banks under his supervision to expand their insurance sales any further.

To stop these measures from sticking in the throat of the commercial banks, congressman Jim Leach, chairman of the banking committee, has thrown in a dose of relief from regulatory burdens imposed by existing consumer protection laws.

The deal, however, is not liked by the Clinton administration. "No one would shed a tear to see the whole bill die," said Mr Jerry Hawke, undersecretary for domestic finance at the Treasury.

"If the price of more regulatory relief is restrictions on national bank insurance activities, bankers should think long and hard before closing that deal," said Mr Eugene Ludwig, the comptroller, whose office is an arm of the Treasury and regulates many nationally chartered banks.

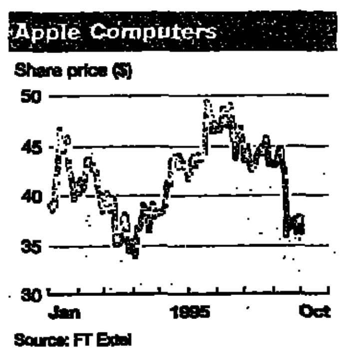
The American Bankers Association will not make its position clear until it sees the full details.

Former Russian vice-president Alexander Rutskoi pays tribute to those killed in clashes with pro-Yeltsin troops during the October 1993 uprising in Moscow. A total of 123 people were killed in the rebellion, according to the latest official figure Picture: Reuter

Apple finance chief quits over strategy

By Louise Kehoe in San Francisco

Apple Computer, the US computer maker which is struggling with intense competition, has been hit by the resignation of its chief financial officer after a boardroom row.



Source: FT Extel

The company said yesterday that Mr Joseph Graziano had resigned due to differences in opinion with Mr Michael Spindler, chief executive.

The announcement followed a regular meeting of Apple's board of directors on Monday and Tuesday.

Rumours had swirled through Wall Street before the meeting that Apple's directors might seek Mr Spindler's resignation.

Mr Spindler has been under pressure because Apple's share of the world personal computer market is falling, despite record growth in its unit sales.

The company also faces severe problems with component shortages which are preventing it from keeping pace with orders for its Macintosh personal computers.

Apple yesterday declined to elaborate on the nature of the disagreement between Mr Spindler and Mr Graziano. But industry analysts said there had been a fundamental split over the company's future.

Mr Tim Bajarin, president of Creative Strategies, an industry consulting firm, said Mr Graziano believed that for Apple to expand its share of the personal computer market the company needed a strategic partner. "Essentially, he believed that Apple should put itself up for sale."

Mr Spindler, on the other hand, has said repeatedly that Apple "is not for sale". He is believed to have argued that with the company's shares depressed by the component shortage problem, this would not be a good time to seek a buyer.

Last month, Apple said the component shortage will have a negative impact on sales and earnings for the fourth fiscal quarter. It will be early 1996 before the problem is fully

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NEWS: EUROPE

Brussels plans sharper watch on insurers

By Caroline Southey in Brussels and Ralph Atkins in London

Measures to tighten supervision of insurance groups in the European Union and extend the single market in the sector by eliminating competitive advantages have been proposed by the European Commission.

The intention is to ensure regulators look beyond individual companies when assessing financial strength. The most important issue covered is "double counting or double gearing", when several insurance companies in the same group count the same capital more than once for covering their minimum regulatory capital requirements.

Mr Mario Monti, the commissioner responsible for the internal market and financial services, said the plans – which need approval by the council of ministers and the European parliament – would give "policyholders a higher level of protection throughout the EU" and would "guarantee a level regulatory playing field".

The Commission hopes the new regulations will come into force in July 1997. They will affect insurance groups in eight EU countries, including Germany and Belgium, where no such regulations exist.

But some continental insurers expressed concern at an insurer being treated, for solvency test purposes, as a subsidiary of a group which owns only a 25 per cent stake. Mr Emilio Galli-Zugaro, spokesman for Allianz, the Munich-based insurer, said such a proposal "went against all the normal thinking of what a company is in terms of consolidation".

Insurance companies will have a four-year grace period on the ownership threshold. Before 2001 a subsidiary must be considered part of the group if the parent company owns 25 per cent of it. This will then drop to 20 per cent.

Most large German insurers have already changed their corporate structures so "double gearing" does not occur. But the Commission said: "If an insurance company belongs to a wider group, that company's solvency and the overall financial position of an insurance company can be directly affected and may potentially come under pressure."

The Commission said the proposals allowed member states to decide precisely how they would apply the regulations, particularly in relation to double counting. "We are being very flexible," an official said. "As long as the objectives are reached."

The proposals were welcomed by insurers in Britain, where double counting is not allowed.

Meanwhile, the Commission said EU-wide regulations, introduced a year ago and aimed at creating a single market in life and non-life insurance, were already having an impact. In Germany, consumers were benefiting from increased competition among insurers selling motor insurance, while in Belgium customers were buying life insurance products marketed by French companies.

Turkish crisis puts EU pact at risk

By John Barham in Ankara

Turkey's worst labour dispute in decades, a deteriorating economy and a political crisis now entering its third week could scarcely have come at a more difficult time.

Serious as these issues are, they are threatening a more important objective – a customs pact with the European Union. The European parliament is demanding political reforms as a condition for approving the pact and will debate the issue in December. But the political and economic disarray is delaying the required reforms which diplomats believe can be delivered only by a strong leader.

A senior EU diplomat warned yesterday that "if the [European] parliament had to vote on customs union today, it would vote No. What we need are some political advances."

However, Mrs Tansu Çiller, the caretaker prime minister, is struggling to cobble together a new coalition after her two-year-old government collapsed last month. A strike for wage increases by 330,000 public sector employees, which began the day her government folded, is hampering these efforts because Mrs Çiller's refusal to meet their demands is alienating potential allies.

The strikers have closed the ports, disrupted the railways and halted work at big state companies. Now the private sector is beginning to feel the effects of the strike, which is costing exporters alone more than $80m a week.

The strike, and the absence of structural economic reforms, are undermining recovery from last year's severe recession when gross domstic product contracted by 6 per cent. Inflation is climbing sharply again after slowing for most of the year. Prices last month rose by 8 per cent, the government reported yesterday, compared with 7.2 per cent in September last year. Consumer prices are now increasing at an annual rate of 91 per cent – more than twice the government's target for the whole year.

Yet it is political deadlock in Ankara that probably concerns business leaders and western governments the most. Horse-trading in the Turkish parliament has halted debate on Strasbourg's conditions for approving customs union. The EU's principal political demand is a modification of Article 8 of Turkey's anti-terrorism law, which punishes almost any criticism of the government's battle against Kurdish guerrillas with long jail sentences.

However, the European diplomat, who is playing a key role in negotiating the customs union, said "nearly everyone in Turkey wants closer relations with the EU but Mrs Çiller's many political opponents want to block customs union simply because it would benefit her politically."

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Progress seen on issue of aid for Spanish car company and national airline

Seat agrees to cut capacity by 30%

By Emma Tucker in Brussels and David White in Madrid

Seat, Volkswagen's loss-making Spanish subsidiary, has agreed to cut capacity by 30 per cent in return for Brussels' approval of a Pta46bn (£237m) state aid package, Mr Karel Van Miert, the competition commissioner, said yesterday. This amounts to 1,000 fewer cars produced per day across the Seat group, according to an official.

The capacity cuts, which will include the closure of a car painting plant in Barcelona, are to be undertaken over the next two and a half years, and amount to roughly 5 per cent of Volkswagen's total European production.

Officials at the Commission said yesterday that agreement on the capacity cuts had been reached at a meeting between Mr Van Miert and Mr Juan Manuel Eguiagaray, the Spanish industry minister, and that Brussels' competition authorities were satisfied that Seat could soon be given the go ahead.

"Mr Van Miert believes he will be able to make a positive decision on Seat by the end of October," said a spokesman. "However, he is still expecting confirmation from the Spanish authorities of all the details he needs."

Volkswagen yesterday swiftly denied suggestions that it would have to cut production in other parts of the group. "The envisaged capacity reduction at Seat roughly translates as a cut of production of 5 per cent within the Volkswagen group. One cannot deduce from this that we are going to cut production of VW and Audi brands," said a spokesman. VW would stick to its agreements and not compensate for the lower output in Spain by driving up capacity elsewhere in Europe.

Seat called yesterday's announcement "very good news" and said it would have "no difficulty" meeting the conditions. It said it had already reduced production capacity at its two Barcelona plants by half since 1993, from about 800,000 cars a year to 400,000.

Minister voices hope for Iberia decision

By Emma Tucker in Brussels and David White in Madrid

A decision on the Spanish government's plan to inject Pta130bn (£670m) into Iberia, the state-owned airline could be reached by the end of the month, Mr Juan Manuel Eguiagaray, the country's industry minister, said yesterday.

After a meeting with Mr Neil Kinnock, the European Union transport commissioner, Mr Eguiagaray said the planned aid would almost certainly have to be reduced, but that a smaller amount would still be enough to guarantee the future viability of Iberia.

The European Commission was more cautious stressing that the dossier was complex and that negotiations might drift in to November.

The Iberia case is being held as a test of the Commission's resolve to be firm on state aids. The Spanish airline received a large sum of aid in 1992, but it was given only on condition that it was the last such round of subsidies.

Mr Kinnock has hinted that the Commission will take a tough line on Iberia, possibly limiting the state aid to help fund redundancies.

The airline's chairman, Mr Juan Sáez, wrote to Mr Kinnock last month expressing concern about the delay in considering the state bail-out, which he said was damaging the company financially.

A plan is currently under study to obtain part of the funds needed by Iberia by transferring its controlling stake in Aerolíneas Argentinas to a consortium headed by Teneo, the Spanish state holding company. Under the plan Teneo, which is Iberia's shareholder, would take a minority interest alongside private-sector partners.

Iberia holds more than 80 per cent of the Argentine flag-carrier, which last year lost the equivalent of Pta31.5bn.

US may boost Bosnian army support

By Bruce Clark in Washington and Harriet Martin in Sarajevo

The US may intensify efforts to bolster the Bosnian army if it proves impossible to persuade all the warring sides in the republic to reduce their military might, Mr William Perry, the US defence secretary, said yesterday.

He was speaking on the eve of a two-day meeting of Nato defence ministers in Williamsburg, Virginia, at which plans to deploy a peace implementation force of up 70,000 soldiers in Bosnia will top the agenda.

In Bosnia, Nato aircraft fired missiles against Bosnian Serb batteries yesterday. A Nato official said the aircraft had fired in self-defence after being targeted by radar while on routine patrols, but had no details of casualties on the ground.

Meanwhile, Mr Richard Holbrooke, the US assistant secretary of state, said yesterday that the Bosnian government in Sarajevo had made a "serious proposal" for a ceasefire which he planned to discuss with Serbian authorities in Belgrade last night.

After achieving two accords on constitutional reforms, the momentum of Mr Holbrooke's shuttle diplomacy had began to falter in the past week as the Bosnian government refused to agree to a ceasefire.

Mr Perry said the ideal solution to Bosnia's military stand-off would be a "build-down" which he defined as "having all the belligerents decrease [armaments] so there is some balance of forces in the region".

However, if diplomatic efforts in that direction failed, Mr Perry said, then "it may be necessary to have some efforts put into the professionalisation of the Bosnia federation army so that there is not such an imbalance".

US officers have been engaged for the past 18 months in discreet efforts to promote military co-operation between the Moslem-led Bosnian army and its tentative Croat allies. But these efforts have been hampered by the need to avoid direct violations of the UN-imposed arms embargo against Bosnia, and by the lingering suspicion between the Bosnian military and the better armed Croats.

However, US officials have indicated that the arms embargo against Bosnia is likely to be lifted soon, either in the event of a peace settlement, or in the event of a breakdown of peace talks because of Serb intransigence. An end to the embargo would pave the way for deeper and more open Bosnian-US co-operation.

Mr Perry is likely to face hard questioning from his European partners at the Williamsburg meeting over how Washington intends to combine peacekeeping with support for the Bosnian army.

Some European officials will argue that any decision to provide unconditional support for the Bosnian army could be read be as a green light for further military action by the Sarajevo leadership.

The Williamsburg talks will also focus on the tricky problem of how to incorporate non-Nato forces, especially those of Russia, into the peace implementation force. Russia has said it will not allow its forces to be subordinated unconditionally to a Nato command structure. However, the US administration will have little hope of persuading Congress to agree to the deployment of US troops in Bosnia unless Nato is firmly in charge.

"I don't have a solution to that problem, but that's the kind of issue we'll be discussing," said Mr Perry, in reference to Russia.

The European ministers in Williamsburg will also pressMr Perry over how long the US will be prepared to keep troops in Bosnia, and whether he envisages handing the job of peacekeeping back to the UN after an initial show of force.

Controversy within the US over the merits of keeping ground troops in Bosnia is expected to rise steadily next year as campaigning gets under way for the next presidential election.

Mr Perry said yesterday: "We have estimated it would perhaps take 9-12 months to provide adequate training for the professionalisation of the Bosnian armed forces."

As well as debating Bosnia and the prospects for Nato expansion in central and eastern Europe, the ministers in Williamsburg may touch on the possibility that conflict will spread to the southern Balkans. Such a conflict could pit the Orthodox Christian Serbs against the Moslems of both Bosnia and Albania.

Shock of change has galvanised some, paralysed others, writes **Chrystia Freeland**

Winners and losers in Russia's high stakes game of reform

The main street of Pravdinsk, a provincial town some 500km south-east of Moscow, is one of the lines that separate the winners from the losers in the high stakes game of Russia's economic reforms.

On one side of the road is the thriving Volga Paper and Pulp Mill, purchased this year by a German strategic investor and already paying the highest wages in the region and achieving record production levels. Just a five minute walk away, the Pravdinsk Radio-relay Equipment Plant, a fully state-owned defence factory, is struggling to survive as government orders dry up and attempts to produce civilian goods falter.

The two factories are the principal providers of jobs and social services for Pravdinsk's 90,000 inhabitants and their contrasting circumstances epitomise the two faces of economic reform. As in Pravdinsk, some sectors of the Russian economy appear to be finally recovering from the shock of radical reform, prompting many government officials and western observers to predict an imminent economic boom. But the reforms have also produced thousands of enterprises like the Pravdinsk defence factory which have been unable to adjust to the market and are dragging down the living standards of millions of families as they slowly collapse.

Ironically, before the demise of communism and of the Soviet Union's military machine, the industrial hierarchy in Pravdinsk had been the reverse.

"We were one of the 600 most important factories in the Soviet Union," Mr Navolnev says with remembered pride. And in Pravdinsk, "we used to be by far the town's most important factory and biggest employer. But now it's the other way around and the mill has outpaced us."

Today, the enterprise is running at just 25 per cent capacity and has cut nearly 40 per cent of its workforce over the past five years. The average monthly wage is Rbs250,000 (£35) and salaries have not been paid since May. In theory, Moscow has placed a Rbs40bn (£5.6m) order for radio-relay equipment this year, but the contracts have not been signed and the defence ministry still owes Rbs1.5bn for equipment delivered last year.

Mr Navolnev's efforts to convert to civilian production have brought little commercial success. In common with many managers of former Soviet defence factories, his first love is complicated engineering and he takes pride in his factory's technological potential. "We can do every kind of casting, welding, forging and plating under the sun," Mr Navolnev enthuses. "We can make any part, from a tiny component for a wristwatch to a giant tube 6m by 8m."

Unfortunately, Mr Navolnev's engineering zeal is hard to reconcile with the consumer-driven approach now required in Russia's emerging market economy. "It is humiliating and sad for me to make cheap and easy things like pens and plates," he says. So, he is trying to produce a dizzying array of more sophisticated products, ranging from a photocopier to an elaborate vehicle called the Georadiolokator.

Unfortunately, in the words of the German managers at the paper mill, to whom Mr Navolnev turned for advice on the mysterious new world of the market economy, the rather robust photocopier "looks more like a panzer". Even more massive is the Georadiolokator, a collection of radar equipment mounted on the chassis of a Zil truck which can detect underground structures to a depth of 50m.

The one Mr Navolnev has built for the factory has been used, to great local acclaim, to

find ancient church bells hidden underground three centuries ago to protect them from Peter the Great's frenzied quest for metal with which to build Russia's fleet. But, with a price tag of some $80,000, the ingenious machine has found only three commercial buyers.

Mr Navolnev's single-minded passion for technology is familiar to Mr Klaus-Jurgen Leipold, the German president and managing director of the Volga Paper and Pulp Mill. Before Mr Leipold's company, Herlitz International Trading, acquired a controlling interest at the end of last year, the company had been pushed to the brink of collapse by a similar Russian management style.

"They are all technical guys – the general director was a paper engineer, the financial director was a paper engineer," Mr Leipold says. "The only thing they had to do in the old system was produce. They never had to ask themselves questions like 'How can I improve my product?' 'How can I market it?' or 'How can I sell it?'"

As a result, says Mr Leipold, the mill was paralysed by last December. Monthly production, expected to be 45,000 tonnes in September, had dropped to 7,000 tonnes. Wages had not been paid for three months, and the mill had no supplies of wood.

Herlitz, which first became involved as a customer, saw no alternative but to take over in order to guarantee access to Russian forests, which account for more than 50 per cent of the trees available worldwide. Today, Mr Leipold and his team of a dozen western managers focus on buying raw materials for the mill and negotiating the sale of its finished products, the two areas where the Russian leadership was least skilled.

Ironically, Mr Leipold points out, the new western proprietors have saved the mill by providing the Russian technicians with exactly what the communist system once gave them – guaranteed supplies and guaranteed purchasers. "We have basically replaced the central plan," he says.

But while the new western owners have changed the mill's management philosophy, they have been careful not to disturb its social structure. No one has been sacked and the former general director even continues to occupy his old office, albeit in the reduced role of manager of the mill's network of social services.

This social concern and the mill's Rbs2m average wage, twice the regional average, have made Volga the most popular employer in the area. As Mr Leipold explains: "One thing the Russians have learned is that we bloody western capitalists are actually more socialist than they are."

Indeed, Mr Leipold and his team have made such an impression on the people of Pravdinsk that Mr Navolnev has begun to dream of a western white knight to save his enterprise. "If our factory were purchased by a western investor that would be a good thing," he says. "Across the road, the workers' collective is doing very well, even though the management is foreign."

The eagerness of men like Mr Navolnev for western investment is one sign of how profoundly Russian thinking has changed since the collapse of communism. But, so far, only a few bold western companies, many of them interested in a specific sector, have dared make long-term, strategic investments. Until Russian managers learn independently to make the changes Mr Leipold has introduced at his mill, much of the country's industry is likely to continue to share the sad fate of the Pravdinsk Radio-relay Equipment Plant.

EUROPEAN NEWS DIGEST

Norway plans budget surplus

Norway yesterday unveiled a draft budget forecasting the government would earn a surplus of NKr10.6bn ($1.55bn) for 1996 which would be saved for the day when the country's offshore oil wells run dry.

The finance minister, Mr Sigbjoern Johnsen, pledged to continue tight fiscal policies after presenting the proposed budget, which forecast revenue of NKr373.8bn and spending of NKr363.2bn. "The main short-term challenge in economic policy is to bring the strong recovery in production and demand in line with a sustainable growth pattern," he told parliament. The surplus was roughly explained by an estimated NKr13.9bn rise in 1996 offshore energy profits to NKr49.3bn – based on an oil price equivalent to $16.62 a barrel.

The surplus, which compares with an estimated deficit of NKr8.6bn in 1995, would be ploughed into the State Petroleum Fund. The fund, which has supported government spending until now, would be converted into a savings fund and invested mainly abroad to secure future state pensions.

"We can now start the important task of building up government financial wealth in the Petroleum Fund, enabling us to meet the long-term challenge of declining oil revenues and an ageing population," Mr Johnsen said. *Reuter, Oslo*

Russian PM rules out presidency

Russian communists yesterday commemorating those who died in the uprising led by hardline MPs two years ago

Russian prime minister Victor Chernomyrdin yesterday said he had no plans to run for the presidency and denied recent rumours of strains in his relationship with President Boris Yeltsin. The rumours about Mr Chernomyrdin's impending departure appear to have been inspired by the mounting public hostility towards the government as the country prepares for December parliamentary elections.

Parliament yesterday began its final session before the elections by observing a minute's silence for people killed in a revolt by hardline deputies in October 1993. Communists conducted a street tribute near the parliament building.

Several prominent Russian journalists had predicted over the past week that Mr Yeltsin would soon sack Mr Chernomyrdin and replace him with a more hardline figure. But Mr Chernomyrdin yesterday insisted: "I have not planned and am not planning to present my own candidacy for the elections for president." *Chrystia Freeland, Moscow*

Caucasus leader escapes bomb

The leader of Georgia's breakaway region of South Ossetia survived an assassination attempt just weeks after a bomb failed to kill the Georgian state leader, Mr Eduard Shevardnadze, the Itar-Tass news agency reported.

A device exploded at the home of prime minister Vladislav Gabarayev in the capital, Tskhinvali, on Monday evening. Nobody was hurt but the building was damaged by the blast, Tass quoted a senior official as saying.

South Ossetia, a region in Georgia's Caucasus mountains, declared independence in 1990, sparking a bloody conflict until Russian, Georgian and Ossetian peacekeepers went to the area in 1992. *Reuter, Moscow*

KIO accused to defy UK court

Mr Javier de la Rosa, the Kuwait Investment Office's (KIO) former Spanish representative facing fraud charges, has said he has no intention of responding to a British court order requiring information on missing funds.

The KIO has filed suits in Madrid and a London court against Mr de la Rosa and other former KIO executives, accusing them of fraud. On Tuesday a London judge required Mr de la Rosa to disclose the destination of $540m in KIO funds transferred on his instructions between 1990 and 1992.

Mr de la Rosa was one of seven former senior KIO officials in Spain who were served with a KIO lawsuit in Madrid two years ago after the collapse of the KIO's $5bn empire in Spain during the 1980s. *Reuter, Madrid*

Greece's inflation declines

Greece's annual inflation rate fell to 8.4 per cent in September from 8.7 per cent in August, reflecting lower prices for food and durable goods, the state statistical service said.

The inflation rate is projected to decline to 8.2 per cent in October when taxes on heating fuel are to be reduced, the Economy Ministry said. Inflation is expected to fall more slowly in the final quarter, though the government still hopes to meet its target of 7.9 per cent by December. The Trade Ministry's policing of wholesalers to prevent excess price rises is being extended to the services sector following an 11.3 per cent jump in charges for entertainment and education in September.

Pressure is also being exerted on manufacturers to hold down price increases for industrial goods. Greece's inflation rate has fallen steadily since January but is still more than twice the European Union average. *Kerin Hope, Athens*

Danish growth loses momentum

The Danish economy is moving into a period of more moderate growth after an exceptional spurt in 1994, according to an economic survey by the Economy Ministry.

But the ministry refused to be rattled by a poor performance in the second quarter of this year, when GDP declined by 0.5 per cent from the first quarter (although it was 2.5 per cent up on last year). Mrs Marianne Jelved, economy minister, said brief pauses during a recovery were nothing unusual. The survey forecast a GDP growth rate of 3.8 per cent in 1995, slipping to 2.9 per cent in 1996, compared with a 4.5 per cent growth rate last year. The rise in consumer prices will be about 2.1 per cent in 1995 and 2.4 per cent in 1996. The balance of payments surplus will rise to DKr21.5bn ($3.9bn) next year from DKr19.5bn this year. *Hilary Barnes, Copenhagen*

Financial reshuffle in France

Mr Michel Prada was appointed head of the Commission des Opérations de Bourse (COB), the French financial markets' watchdog, as part of a reshuffle yesterday of senior officials in the French administration.

Mr Prada, presently head of the state-backed Crédit d'Equipments des PME, which provides finance for small businesses, has been appointed for a six-year term in place of Mr Jean Saint-Geours, who is retiring.

Mr Jean Lemierre, who was head of the office of Mr Jean Arthuis, the economics and finance minister, is to become director of the French Treasury.

It is believed that Mr Arthuis had tried to have Mr Lemierre appointed head of the COB in an effort to appoint an official closer to his own views. Mr Lemierre is being replaced in Mr Arthuis' office by Mr Christian Noyer, the present head of the treasury. *Andrew Jack, Paris*

Crédit Lyonnais go-ahead

By Andrew Jack in Paris

The French parliament yesterday approved the financial rescue package for Crédit Lyonnais, the state-owned bank which suffered huge losses during the early 1990s.

In an overwhelming vote from members in the centre-right ruling coalition, the National Assembly approved a restructuring by which the bank will be able to remove FFr135bn ($27.2bn) in assets from its balance sheet for sale, in an operation underwritten by the French state.

The law also approves a similar rescue package for Comptoir des Entrepreneurs, the specialist property bank indirectly owned by the state, which allows it to remove some FFr16bn in loss-making assets from its balance sheet.

The decision to approve the law came in spite of opposition to the rescue plan voiced by the bank's private sector competitors and by a number of leading politicians including Mr François d'Aubert, now the finance minister, and Mr Alain Madelin, the economics minister who was forced to resign in August.

The law is still subject to discussion by the French Senate. In addition, officials are awaiting publication of the detailed conditions modifying the rescue plan that were imposed by the European Commission, which granted its approval in July.

A last-minute amendment passed by parliament included the demand for senior executives of public sector companies to be liable for punishment if found guilty of poor management. However, the clause will not apply retrospectively to those including former directors of Crédit Lyonnais, and it will require new legislation before it can be implemented.

The National Assembly finance commission had already made a number of modifications to the French government's original proposals for the rescue package, including a provision demanding that the sale of assets removed from the bank's balance sheet be supervised by politicians and others independent of Crédit Lyonnais.

The commission also introduced a provision into the law capping at FFr50bn the extent of interest payable by the state to cover losses as the bank's assets are sold. The National Assembly will need to reconsider the law if the final bill exceeds this level.

The commission also recommended a re-examination of section 52 of the French banking law, which allows the governor of the Bank of France to "request" help from the leading shareholders of any bank which runs into financial difficulties.

The finance commission warned that, in the light of recent crises facing several French banks, the adequacy of this regulation had been undermined.

Hinting at the need for possible reforms to the current system of regulation of banks, Mr Philippe Auberger, chairman of the finance commission, said that the French banking commission had acted "tardily and inadequately" in its role of supervising Crédit Lyonnais. His comments come ahead of a highly critical report from the Cour des Comptes, the French public sector watchdog, which is expected in the next few days.

The management of two activities of France Télécom, the national phone operator, came in for sharp criticism from the Cour des Comptes, the public sector watchdog, in its annual report published yesterday, writes Andrew Jack in Paris.

The report said there was inadequate preparation and management in its cable television service and its mobile telephone network. It said the move away from France Télécom's status as a public sector monopoly demanded a "business logic" that had not been in evidence and expressed doubts about the financial prospects of some of its services.

The cable TV service was likely to cost more than FFr1.2bn ($230m) between 1989 and 1996 before depreciation charges, while the mobile phone service had registered losses of FFr4bn and was not providing sufficient financial information necessary for tight management.

The 1995 annual report of the Cour des Comptes also attacked the government's management approach on urban policy, employment programmes, aid to industry and handling of the budget laws, as well as incidents in various regions.

Chirac warns on welfare reform

By David Buchan in Paris

President Jacques Chirac yesterday warned French taxpayers that they would all have to help bail out the deficit-ridden social security system, which could no longer be propped up by payroll contributions from employers and employees.

In his first important speech since his election in May on the future of France's welfare system, Mr Chirac said he would "guarantee" the present level of pension, family allowances and health insurance, but warned that the whole system was threatened by its chronic deficit. In 1993 the state assumed past social security debts of FFr110bn ($21.6bn), but since then the system has fallen into the red to the tune of another FFr120bn, the president said.

The government of prime minister Alain Juppé has pledged to halve the annual welfare deficit to FFr30bn next year and to reduce it to zero in 1997, as part of its effort to prepare France for European monetary union.

Financial markets and the Bank of France itself appear to be awaiting the government's welfare reforms before taking any further action to ease French interest rates.

In his speech at the Sorbonne to mark the 50th anniversary of the country's post-war welfare system, Mr Chirac complained that by being the only leading industrialised country to fund welfare from payroll charges, France had handicapped itself. "This penalises us in international competition, and in employment . . . by encouraging companies to buy machines rather than hire people."

> The medical profession in France faces 'its last chance' to reform itself

The president's main aim yesterday was to call for national calm in debating welfare reform, in advance of next Tuesday's general strike in the public sector. The immediate spark for this strike is the government's plan to freeze public sector pay rates next year in order to help slice 10 per cent off the budget deficit, but the unions are also worried about changes in the social security system which at present they co-manage with employers.

Mr Chirac fired a warning shot at managers of the French health system, which costs 10 per cent of GDP and is Europe's most extravagant. He said he still believed the cure lay in doctors agreeing to improve efficiency, rather than government slapping spending limits on them.

But, in the wake of recent figures showing that medical costs are soaring again, at nearly 7 per cent a year, the president said he was worried that his gentler approach, which won him the doctors' vote in the election, was "running out of steam". The French medical profession faced "its last chance" to reform itself, he said.

Earlier, Mr Chirac presided over a cabinet meeting which endorsed a draft proposal to pay elderly people FFr4,300 a month allowance to enable them to hire home helps.

If approved by parliament, the measure would cost FFr20bn next year, split evenly between central and local government, and create 50,000-70,000 part-time jobs, officials said.

A reluctant law unto herself

Caroline Southey on Brussels' humanitarian aid commissioner

Emma Bonino's varied portfolio in Brussels includes fish, consumer affairs and humanitarian aid

Ms Emma Bonino – the diminutive, chain-smoking, Italian radical – has confounded some of her staunchest critics since arriving in Brussels as commissioner in January. "She has not turned out the hot-head everybody expected," says a seasoned member of her team. "I have had to take back everything I said about her," says an experienced official working in a rival department.

But there is one area of her varied responsibilities that is particularly controversial, and her tendency for straight talking is making it more so.

When today she announces that another Ecu4.6m (£3.8m) in humanitarian aid is to go to refugees in former Yugoslavia, she will be making public a decision made without reference to her fellow commissioners or the European Union's member states.

In fact, nearly Ecu800m of European taxpayers' money is distributed through 82 countries more or less at her discretion.

A near independent agent with that sort of clout within the Brussels establishment would be controversial whoever did the job. The fact that it is done by Ms Bonino makes it doubly so.

In Italy Ms Bonino built her political career on fighting the establishment. In 1975, during her activist years as a member of Italy's Radical Party, she was detained for three weeks for assisting women to obtain abortions which were illegal. When she was elected as a member of parliament she was given immunity from prosecution. Although she pressed for the immunity to be lifted, it never was. Technically she could still be brought to trial.

She was also detained in New York for distributing clean needles to drug addicts as part of a campaign for safer drug use.

Now Ms Bonino is responsible for three portfolios in the European Commission – fish, consumer affairs and humanitarian aid. But it is her pro-active style in dealing with the little-known European Community Humanitarian Office (Echo) that has raised hackles in EU capitals and in Brussels.

Ms Bonino has promoted a higher profile for Echo, packing in 15 foreign trips, including three to the former Yugoslavia, in eight months. Her publicity programme has "provoked a lot of jealousy" says a senior official, adding that "there are many who would like to see her wings clipped".

Ms Bonino is unrepentant. "Openly and without hypocrisy I am battling to give Echo a higher profile. My motivation is to give Echo the same visibility as NGOs. It is a shame European taxpayers do not know how their money is spent."

Echo's handicap is that it is not always visible on the ground because it uses the expertise of 160 NGOs with which it has "partnership agreements" and who do the work.

One of her more controversial projects has been to promote a medical aid programme in Cuba. "The project has prompted the questions: is the Commission freelancing in Cuba? Where will it use humanitarian aid next?" says an EU official.

Ms Bonino denies that she is using humanitarian aid as a political weapon to influence foreign policy. "No, I have not been tempted to use Echo as an arm of foreign policy. I have been involved in humanitarian aid for many years. I am quite clear about the difference between the two.

"Echo is not the solution. Never. We are trying to soften the suffering of victims, to save lives. But is it not enough because most of the problems have a political origin and need a political solution."

Ms Bonino says she cannot use Echo's money to influence governments because it bypasses national administrations and is channelled to victims through non-governmental organisations.

"Governments ask us to give them the money all the time. They say we know the people, we will take care of our people. This happened in Cuba too. And every time I have to explain that we have a rule, and it is a good rule," she says.

Ms Bonino accepts that a structure that allows her to "do what I like, more or less" will have to change.

The heart of the problem, according to an EU official is that "Echo was endorsed with emergency short-circuiting procedures".

"It is a classical instance of bureaucracies avoiding controls by resorting to emergencies. Then the bureaucracy extends what it means by emergency to cover a wider and wider area."

Ms Bonino and member states are negotiating Echo's first-ever mandate, which she hopes will iron out some of the difficulties. "We need a legal base so that we know what Echo is mandated to do, in what fields and with what relationship with the council."

She hopes the council will agree to a "consultative committee" rather than a regulatory one, which will set budgets and programmes for longer term crises. She also hopes it will facilitate co-ordination between Echo's multilateral work and bilateral humanitarian projects conducted by member states.

But, she cautions, there are risks involved. "One problem is the lack of co-ordination which I want to solve and another problem is systematic approval by member states which I would like to avoid."

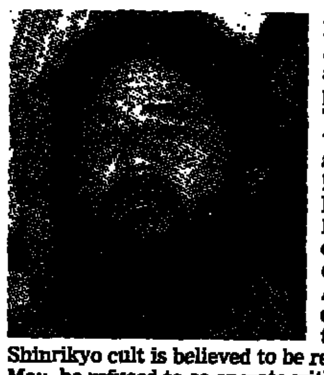
She insists she wants to retain control, not because of "personal narcissism" but simply because "if I decide, say Liberia, and you need the approval of 15 member states you will take care of Liberia in six months' time".

Above all she wants to "prevent the idea that because humanitarian aid is not the solution it is a waste of money. I believe saving lives is not a waste of money. Of course to prevent crises is much better, but that is not up to me and Echo".

NEWS: ASIA-PACIFIC

ASIA-PACIFIC NEWS DIGEST

Asahara 'admits poison gas role'



Mr Shoko Asahara (*pictured left*), the religious cult leader accused of masterminding a poison gas attack on the Tokyo subway system in which 12 people were killed and about 5,500 injured last March, has started to admit his involvement, according to NHK public television. A confession would mark a complete reversal for Mr Asahara, who has steadfastly denied involvement in any of the crimes for which the Aum Shinrikyo cult is believed to be responsible. After his arrest in May, he refused to co-operate with the authorities.

NHK reported that Mr Asahara, who is charged with murder and attempted murder in connection with the subway attack, had started to confess to these crimes as well as others, including an earlier gas attack at a mountain resort which left seven people dead and made 600 ill and ordering the murder of a follower who tried to leave the cult last year.

However, NHK also reported that Mr Asahara's lawyer and members of the cult believe the confession to have been obtained by the police with the promise that Aum Shinrikyo would not be forced to disband. *Michiyo Nakamoto, Tokyo*

North Korean rice crop 'halved'

North Korea's farmers are likely to harvest only half their normal rice crop because of flood damage, Japanese Food Agency officials said yesterday. They said North Korean diplomats in Beijing also confirmed earlier reports that the North's overall grain production for the 1995-96 crop year was likely to be down by about a third from its 5.67m tonne target. The food agency officials were in the Chinese capital to sign a deal with Pyongyang which will see Japan supply a further 200,000 tonnes of emergency rice to North Korea. Japan had already agreed in June to send 300,000 tonnes of rice.

"We're informed that total grain output in the North this year is expected to fall to 3.77m tonnes from the original target of 5.67m tonnes," a senior agency official said. Output of rice, a staple food in the North, was expected to be about half of the 2m-tonne target, another official said. *Reuter, Tokyo*

Indonesian trade in surplus

Indonesia yesterday announced a trade surplus of $362.5m in July, compared with a deficit of $204.9m in June. Information Minister Harmoko said the consumer price index rose 0.38 per cent in September compared with a 0.32 per cent rise in August but lower than the 0.53 per cent in September 1994. "The surplus for July is a good sign and will restore confidence in the economy, which is on the right track," Mr Edwin Png, country treasurer for Bank of America, said. "Inflation seems to be under control and although it was slightly higher than August, it's no big deal compared with the level last September (in 1994)," he said.

● Mr James Hanson, a Jakarta-based economist at the World Bank, said Indonesia should reduce its outstanding foreign debt on the back of increased capital inflows. "In the context of increased private inflows of equity and debt, it would be desirable for the the government to continue to reduce the outstanding public foreign debt," he said. *Reuter, Jakarta*

Plan seeks to address widening gap between coastal boom and interior backwardness

China aims to boost growth in poor areas

By Tony Walker in Beijing

China yesterday released documents calling for a concerted effort to narrow a widening gap between its prosperous coastal regions and its underdeveloped hinterland to counter possible social unrest in deprived areas.

Beijing would also encourage development of larger regional units rather than individual provinces as part of attempts to redress serious imbalances in income and living standards across its vast territory.

The drive to re-direct resources to poorer areas was outlined in China's ninth five-year plan (1996-2000) and its 15-year strategy, both of which were approved last week by the Communist party's central committee.

The strategy blueprint, designed to carry China forward into the next century, is short on detail and long on general principles. But it underscores leadership worries about serious imbalances in economic development.

Chinese leaders have become increasing concerned over widening disparities between coastal areas, which have attracted a flood of investment, and the interior. Many among an estimated 70m Chinese living below the poverty line are from inland provinces. The authorities pledged to increase investment in impoverished regions and provide tax and other incentives to lure investors to more remote areas.

The 15-year plan, known as "Long-Term target for the year 2010", called for larger cash transfers to poor areas, for priority to be given to infrastructure projects in poor areas, and also for labour-intensive industries such as textiles to be moved to the interior.

Proposals to boost development in poorer regions were aimed at complementing China's overall economic strategy of completing the shift from a planned economy to a market-oriented system by 2010.

"During this period, we shall establish a comparatively complete socialist market economic system... while laying a solid foundation for the basic realisation of modernisation in the middle of the next century," the plan said.

China's ninth five-year plan and its longer-term blueprint for economic development called for increased emphasis on agriculture to feed a population of 1.2bn, a continued opening to the outside world and the progressive reduction of tariff and non-tariff barriers.

The documents also outlined steps to improve the performance of state enterprises, but they gave little encouragement to those demanding swifter privatisation. Rather, Chinese leaders emphasised the need to re-invigorate state-owned companies as the basis of the evolving socialist market system. "Whether we will be able to speed up the process of modernisation and gain the initiative in international co-operation and competition will decide China's position and destiny in the next century," the central committee said.

The documents also promised:

● A progressive levelling of the playing field for foreign investment, in accordance with the country's attempts to join the World Trade Organisation;

● A firm grip on construction to help control inflation and to protect farmland;

● Development of an interbank market to help create a real market for national debt and reduce the budget deficit.

A senior official of China's Ministry of Internal Trade has promised better access for foreign companies to its booming retail sector and said the distribution system is in urgent need of improvement, Reuter reports from Shanghai.

Beijing has approved 14 joint venture department stores in 11 cities on an experimental basis, Mr Ding Junfa, director of the ministry's office, was quoted as saying by the China Securities newspaper. Imported goods may account for up to 30 per cent of the turnover of these stores but they must achieve a foreign exchange balance on their own, Mr Ding said.

After the experimental period is over, China will expand the number of cities and stores where such joint ventures can operate, he said, but gave no timetable. China's 1994 retail sales were Yn1,605bn ($193bn), up 81.2 per cent over 1993.

China will also allow joint ventures in chain stores and distribution centres on an experimental basis and is exploring possible joint venture or co-operation deals in the wholesale sector.

China's distribution system, including warehousing, ports, distribution centres and transport, is backward and in need of foreign expertise and equipment, he added.

Inflation soars in Philippines

By Edward Luce in Manila

Philippine inflation leaped by more than three percentage points to 11.8 per cent in September, prompting widespread concern that the economy may be overheating.

The jump – the sixth successive monthly rise since inflation touched a low of 5.1 per cent in February and the largest monthly increase since 1991 – caused a fall in the Philippine stock market of 1.8 per cent to 2,569.

Stock exchange analysts pointed out that the market had been languishing for weeks in expectation of higher inflation but expressed surprise at the size of the increase in yesterday's announcement.

"This is well above what anybody expected," said Mr Joey Salceda, chief researcher at SBC Warburg in Manila. "The government seems to have let the inflationary monster out of the cage, and it is going to be very difficult to put it back in again."

However, Mr Gabriel Singson, governor of the central bank, said that the rise was a temporary blip because of rice shortages which would be ironed out by the end of the month. He disagreed with suggestions that the rapid growth in broad money (M3) was behind the steep price rises.

The latest inflation figures come just five days after the government put its final signature on a revised agreement with the International Monetary Fund, permitting the Philippines to increase the annual M3 growth target from 24 per cent to 31 per cent.

The government told the IMF that economic growth, which was 5.2 per cent in the first six months of 1995, was being held back by tight monetary policy.

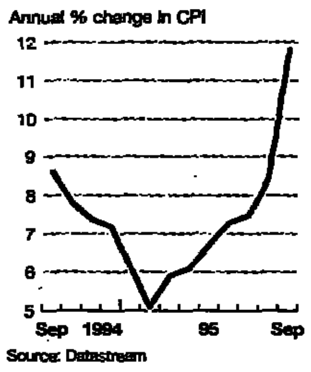
Economists said yesterday that, at 9.8 per cent, the central bank's bellwether 91-day T-bills were too low and should be pushed up steeply to choke off the growing inflationary momentum. "The government is at a critical juncture," said Mr Salceda. "Either it bites the bullet now and attacks inflation or it allows the problem to get worse."

Concern was also expressed yesterday about the government's commitment to approve higher petrol pump prices, which are subsidised at about half world market levels. Under the revised IMF agreement, the government has pledged to deregulate oil prices as soon as possible.

Leading Philippine companies, however, have warned they will raise consumer prices in the event of an oil price increase. The Philippine senate, meanwhile, pledged last week to boost the minimum wage by 25 per cent in response to a petrol price rise.

Philippines: inflation

Annual % change in CPI



Source: Datastream

Thailand 'committed' to financial liberalisation

By Ted Bardacke in Bangkok

Thailand remains committed to liberalisation of its financial market, despite moves in the past two weeks to restrain some foreign lending and worries that a more open market could exacerbate the country's rising inflation rate and large current account deficit, Mr Surakiart Sathirathai, finance minister, said yesterday.

Mr Surakiart said the strict rules and high capital requirements for new foreign banks and curbs on non-baht lending were "temporary measures".

"The liberalisation policy is there," he said. "But how we would like to liberalise depends on the condition of our economy at a given time... and we don't expect the current situation to last for five years. Liberalisation does not mean everyone can do anything they like. We don't want the Thai and foreign banks to encourage speculation or encourage sectors that are not productive for the economy."

Responding to criticism that the $80m initial capital requirements for new foreign banks, at least four times higher than any other country in the region, would lead to a plethora of high-volume, low-margin banks rather than a broadening of financial services offered, Mr Surakiart said additional licences would be offered for foreign banks with particular specialties which were lacking in Thailand.

But he noted this additional round of licences was some time away, adding that, "for psychological rather than economic reasons", licences for five new domestic banks would be issued before any new foreign banks were allowed to begin operations. Those new domestic licences should be granted in mid-1996, he said.

Asked to comment on the clause in the new banking regulations specifying that only banks from countries with financial liberalisation policies would be allowed to apply for new licences – a measure seen as a snub to the US for its exemption request in the General Agreement on Trade in Services – Mr Surakiart said that the US had a financial liberalisation policy "to a certain extent, but I would welcome them doing more".

Mr Surakiart also said that next month the Securities and Exchange Commission would consider the establishment of Thai Trust Funds, which would eliminate the large price differential between foreign and domestic shares quoted on the stock exchange. "This will open new opportunities for foreign and domestic investors to invest in our capital and money markets," he said. "We have to broaden and deepen those markets."

He added that a high-level committee studying long-term measures to reduce Thailand's current account deficit would be ready with its recommendations in two to three months. The committee was particularly interested in ways to increase earnings in the services sector, notably from areas such as transport, shipping and copyright.

NEWS: WORLD TRADE

Thailand doubts over use of LNG

By Ted Bardacke in Bangkok

The selection committee overseeing Thailand's $4.5bn Independent Power Producer electricity programme may eliminate bidders who based their projects on the use of liquefied natural gas, the new governor of the state-owned Electricity Generating Authority of Thailand (Egat) said.

Thailand does not have enough indigenous natural gas to supply all the demand expected from the IPPs and steps have been made to set up an LNG gas terminal to fuel the IPPs.

But Mr Preecha Chungwantana, who assumed the top post at Egat on Monday said that the high price of LNG and potential supply difficulties made it risky for Egat to buy electricity from power plants using it as fuel.

About half of the 30 consortiums which submitted IPP bids proposed using natural gas as their primary source of fuel on the assumption that LNG could be used as a substitute and that the price differential between the two fuels would be passed on to the consumer through Egat. Most of the rest of the bidders proposed using imported coal to fire their plants.

Mr Preecha added that once supply arrangements were settled, an additional IPP programme exclusively for power plants fueled by LNG could be implemented.

He also said that due to many errors in the bid documents filed by the consortiums, Egat was postponing the announcement of its short-list for three months until January.

The extra time will be used for consultations between Egat and the consortiums, so that they may correct the errors which included listing electricity prices in US dollars rather than Thai baht and asking Egat to start buying electricity as early as 1998 when the earliest purchases contemplated are in 2000.

US and EU open trade dialogue

By Nancy Dunne in Washington

Businessmen and government officials from the US and the European Union are to meet in Seville next month to discuss broad bilateral trade and commercial relations, Mr Ron Brown, the US commerce secretary, said yesterday.

With both Brussels and Washington reluctant to pursue a free trade agreement in the near future, the business-driven dialogue is seen as a logical alternative towards realising a free trade area.

"We are always issuing white papers and theorising on issues with not enough consultation with industry, where the rubber meets the road," Mr Brown said yesterday. "It is crucial that we make policy decisions in concert with those who are most affected."

He will lead the US delegation along with Mr Paul Allaire, Xerox chairman, and Mr Alex Trotman, the chairman of Ford. EU commissioners Sir Leon Brittan and Mr Martin Bangemann together with Mr Jürgen Strube, chairman of BASF, and Mr Peter Sutherland, chairman of Goldman Sachs International, will head the EU side.

Mr Brown said business recommendations would be presented to President Bill Clinton for his discussions with Mr Jacques Santer, president of the European Commission, and Spanish Prime Minister Felipe González during the US-EU summit in December.

Companies on both sides of the Atlantic have helped develop the agenda. Four working groups will be established to address standards, testing and regulations; trade liberalisation; investment and third country relations.

EU and US officials sent letters to 1,800 businessmen last April soliciting views on improving bilateral relations. US businessmen showed the greatest interest in efforts to reduce trade barriers created by standards, testing and regulations. Particularly, they wanted co-operation on environmental regulation.

Some US businessmen wanted further trade liberalisation with others recommending an acceleration of tariff cuts agreed in the Uruguay Round of global trade talks. US companies also wanted greater co-operation promoting the business climate in central and eastern Europe and other third country markets. Both US and EU businessmen said they wanted faster and co-ordinated deregulation of telecommunications.

European executives suggested that the EU and US co-ordinate to reinforce the multinational trade system and that regulatory issues be addressed. On the EU side there is interest in the harmonisation of taxation and competition policies. Several executives proposed using the Internet to facilitate trade by linking buyers and sellers in specific sectors and potential candidates for joint ventures.

Carmakers settle for second best

Michiyo Nakamoto on one market that defies Japanese invasion

Japanese carmakers are not known for passing up opportunities, but their reaction to South Korea's concessions on liberalising its car market has been closer to indifference than enthusiasm.

Despite last week's concessions to US and western car manufacturers, the Korean government has made no move to lift its long-standing ban against Japanese cars. Seoul cites as the reason for the ban Korea's trade imbalance with Japan. Although South Korea has gradually lifted import restrictions, it has maintained the ban on Japanese cars.

"Japanese government officials have asked the Korean authorities time and again to lift the ban," said an official at the Ministry of International Trade and Industry.

However, despite their aggressive expansion into overseas markets, Japan's carmakers have been reticent about the obstacle blocking their way into a promising market just across the Sea of Japan.

Their silence stems in part to a particular sensitivity about Korean animosity towards Japan which has lingered since Japanese colonisation of the Korean peninsula earlier this century. "It looks like an attractive market but we would rather not arouse anger in Korea," says an official at a major Japanese carmaker.

The car groups are also aware that Japanese cars would not be widely accepted in Korea, perhaps a result of the negative impact of the South Korean government's policy of promoting domestic products.

For their part, Korean manufacturers have not entered the Japanese market in any significant way either. Although this is mainly because Korean cars compete head-on with Japanese cars, there is an atmosphere of mutual consent to stay out of each other's markets.

Nonetheless, Japanese carmakers have not been entirely idle in their pursuit of business in their neighbouring market.

While imports of their cars have been banned, Japanese carmakers have formed links with Korean manufacturers which have given them an indirect entry into the Korean market. Nissan recently stirred controversy with a decision to transfer technology to Samsung for the production of cars. Production of an annual 65,000 vehicles, for which Nissan will provide the basic design, is scheduled to start in 1998 and Nissan will receive technology transfer fees as well as royalties on sales.

Japan's second largest carmaker believes that this longer-term approach, working with local interests, is a more appropriate way to build its business in Korea.

Mitsubishi Motors holds a similar view. The Japanese carmaker has a 4.5 per cent stake in Hyundai Motor, while Mitsubishi Corporation, which belongs to the same business group, holds a further 5.8 per cent.

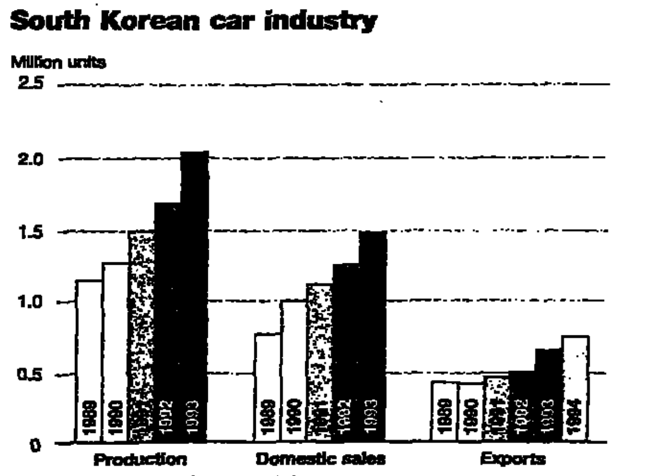
MMC provides Hyundai with technology for a luxury car and is unlikley to want to export to South Korea, at least in the near term, a company representative points out.

Honda, which has a technology tie-up with Daewoo, says that while recent US moves may encourage Japanese carmakers to take another look at the Korean market, the obstacles remain formidable.

Not only do Japanese cars have very little brand recognition in the country. South Korean carmakers are extremely competitive in the low cost entry level market. Japanese carmakers export from a higher cost base and will find it difficult to compete, he says.

South Korean car industry

Million units



Source: Korean Ministry of Trade and Industry

Congress disappoints Caribbean exporters

By Canute James in Kingston

US legislators, concerned about a flood of imports and a possible loss of jobs, have halted consideration of proposals intended to give 24 Caribbean countries "parity" with Mexico in selling a range of exports to the US.

The Caribbean countries fear they will lose their markets to Mexico, which has an advantage as a member of Nafta.

The legislation offered the Caribbean Basin enhanced access, particularly for textiles and clothing, one of the faster growing exports to the US. Some legislators, reacting to concerns of domestic producers and organised labour, removed the "parity" proposals from pending legislation.

It is the second time in two years that legislators have rejected plans to put the Caribbean on a par with Mexico.

The 24 countries in the Caribbean and Central America have benefited from the Caribbean Basin Initiative, a trade programme implemented by the US 11 years ago which allows countries selected by Washington to export a range of products duty-free to the US. The region has been unhappy that the CBI excluded several categories, mainly textiles and clothing and leather goods.

Caribbean clothing exports to the US are under a separate programme, with quotas given for categories of products, most of these assembled in the region from textiles produced and cut in the US. Since the implementation of Nafta, Caribbean exporters have been saying that their US markets are threatened by a more competitive Mexico, and have been asking the Nafta partners to grant them parity.

"This is a substantial setback particularly for the Caribbean textile and apparel industry," said Mr Peter King, chairman of the Caribbean Textile and Apparel Institute, a lobby for the region's industry. "We had hoped that passage of the Parity Bill would have taken place this year. There is simply too much at stake for us to give up at this stage."

WORLD TRADE NEWS DIGEST

Market set to double for chips

The world semiconductor market will more than double in size by the end of the decade, to reach annual sales of $331bn up from $149bn this year, according to a report published by Dataquest, the market research company. Driven by strong growth in the personal computer sector, worldwide sales of semiconductor components are expected to increase by nearly 36 per cent this year, the market analysts said. Growth is, however, being constrained by production capacity.

Demand for semiconductor products is currently outstripping supplies, and the imbalance is expected to continue until the early part of 1997, despite record levels of investment in new plants and equipment.

"Our optimistic outlook for the chip industry is only clouded by the excessively long lead times for (production) equipment and scarcity of skilled employees," said Mr Gene Norrett, vice president and director of Dataquest's Worldwide Semiconductor Group. *Louise Kehoe, San Francisco*

Irish crafts earn I£100m

Ireland's craft industry, long associated with crofters' tweeds and hand made woollens, is estimated to have earned over I£100m ($62m) in 1994-1995, an increase of 25 per cent over the previous period, making it one of the fastest growing sectors of the economy.

Irish crafts are a feature of the 1996 trade buyers fair, Showcase Dublin, which opened in the Irish capital this week. Showcase Dublin, one of Europe's most important craft and design fairs, was attended last year by more than 8,000 exhibitors, and made sales of I£23.4m, up from around I£8m in 1988. The new orders led to the creation of 730 new jobs. The craft industry is providing an important safety net in a period of high unemployment with between 10,000 and 12,000 people employed often in two or three person workshops in rural areas of the country. *John Murray Brown, Dublin*

■ Aerospatiale and partner Daimler-Benz Aerospace (Dasa) have won a contract to build two telecommunications satellites for Chinese operator Sinosat Communications. They will be launched by Chinese rockets. Aerospatiale said the export order book for the two companies totalled 16 telecommunications satellites, worth $1bn. Sinosat is the project manager for EuraSpace, a joint venture between Dasa and China Aerospace. *Reuter, Paris*

■ CAE, the Canadian electronics group, through its German subsidiary, has won a C$54m (US$40m) contract to upgrade seven Tornado full-flight simulators for the German defence ministry. *Robert Gibbens, Montreal*

■ Siemens of Germany said its public communications networks division has won contracts from Telefonica de Argentina, Telecom Argentina and other local companies to supply more than 1m units of its digital switching system. The Argentine companies also awarded Siemens orders for more than 5,500km of fibre-optic line. *AFX, Munich*

■ Ansett Australia and Taiwan's EVA Airways will code share their services between Australia and Taiwan allowing each airline to sell the other's seats as its own. EVA has two return flights a week between Australia and Taiwan. Ansett, new to the international market, will start twice weekly flights next month. *Reuter, Canberra*

■ A consortium of three South Korean companies, led by Posco Engineering and Construction, has been awarded a $130m contract to build on a turn-key basis a huge special steel plant in Egypt. The plant, with an annual capacity of 140,000 tonnes, will make special steel products in Sadat City, 90km north-west of Cairo. Construction will start in March 1996 for completion by early 1999. *Reuter, Seoul*

هكذا من الأطفل

HOW MASTER CRAFTSMEN MAKE PATEK PHILIPPE A LEGEND OF OUR TIME.

From the time the world's first Guild of Master Watchmakers was founded in Geneva nearly four centuries ago, our city has been the undisputed capital of fine watchmaking. Ever since 1839, from one generation to the next, master craftsmen have enjoyed a privileged environment at Patek Philippe. In fact, Patek Philippe has been almost a guild itself, attracting the most accomplished and forward-thinking designers, watchmakers, goldsmiths, chainsmiths, jewellers, enamellers and engravers.

Today, Patek Philippe is the world's only complete watchmaker still capable of perpetuating all of these time-honoured crafts, setting a standard consistent with Geneva's reputation. For only the skilled and sensitive hand of the master craftsman can create, shape, polish and assemble mechanical components into a fine precision instrument.

Now, come spend a few moments with us to discover more about some of the master craftsmen behind Patek Philippe watches.

The designer combines avant-garde concepts with motifs that are Patek Philippe legacies. As he gives substance to an idea, he respects the values that endure from one century to the next. He makes hundreds of drawings until he captures a design that represents the artistic ideals of the age.

Patek Philippe ingenious watchmakers, such as our world authority on chiming and repeating watches, are often referred to as 'the men with the golden hands'. Scores of other rare skills are kept alive in our master watchmakers' talented hands, from balance poising to the building of the Calibre 89, the world's most complicated pocket watch.

Our goldsmiths adhere to the traditions of one of the oldest decorative arts, bringing together the skills of a jewellery maker, case maker, jewel setter and polisher.

Is it an illusion, you may ask, that the delicate tracery of a gold bracelet could be so supple, yet so strong? It's the magic of the chainsmith's art. Each bracelet is created entirely by hand. Each is one of a kind.

Our master jeweller is steeped in the great Geneva tradition of gemmology and further trained in Patek Philippe's own ideas of beauty and value. The brilliance of his work on the dial of a dress watch quietly reflects perfection.

The art of painting an enamel miniature on the cover of a pocket watch requires skills that only a few artists continue to practice today. We still decorate a bespoke pocket watch to meet the expectations of the most discerning collectors.

With tools handed down over the years, the master engraver creates a certain lustre and brilliance, especially when depicting movement or light on water. Only one or two enchanting scenes are created each year.

But there is yet another dimension to our story of master craftsmanship. Throughout its 155-year history, Patek Philippe has consistently distinguished itself by its pace-setting research, development and engineering, where many pioneering ideas take shape. In fact, Patek Philippe's influence in defining the evolution and progress of modern watchmaking is a legend in itself.

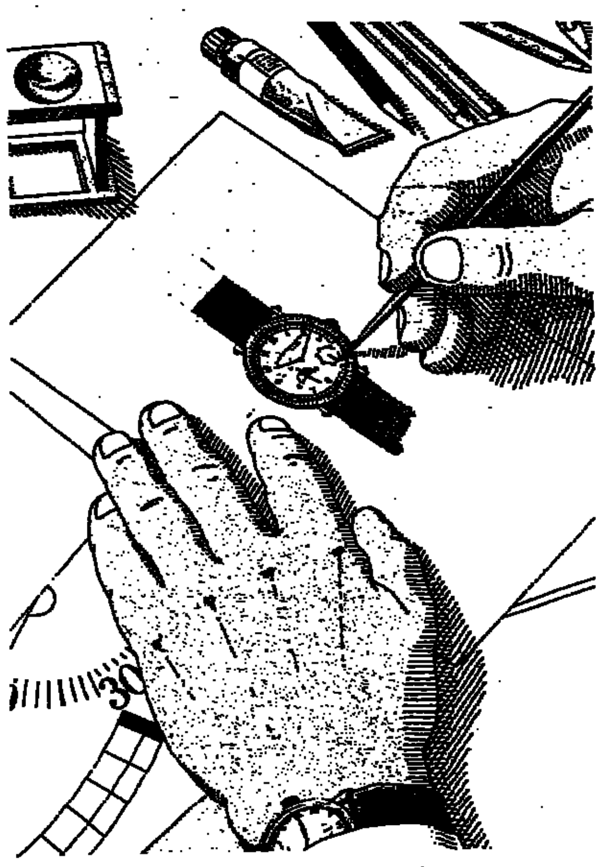
We were awarded our first patent in 1845, and as our master technicians set new standards of watchmaking in their quest for perfection, the list of patents continues to grow.

Our respect for the highest values of watchmaking tradition, creativity and perfection combined with the most advanced technological thinking will be passed on dutifully to future generations of Patek Philippe watchmakers far into the Third Millennium.

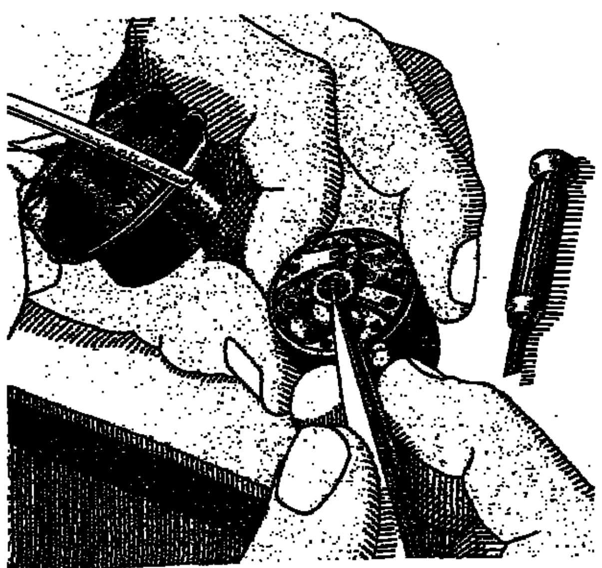
Perhaps that is why we are often called 'the guardian of Geneva's great tradition of horology'.

A Patek Philippe masterpiece, respected and treasured from generation to generation.

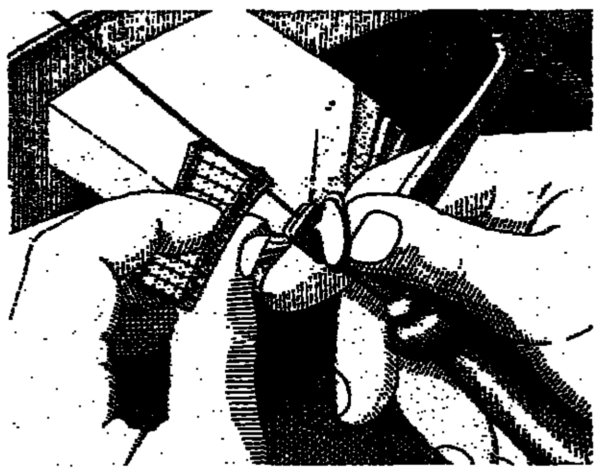
Its destiny is to be a legend.



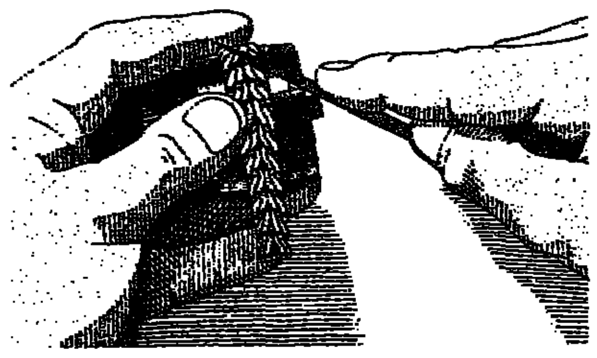
The master designer gives substance to an idea that says something about the enduring values of Patek Philippe.



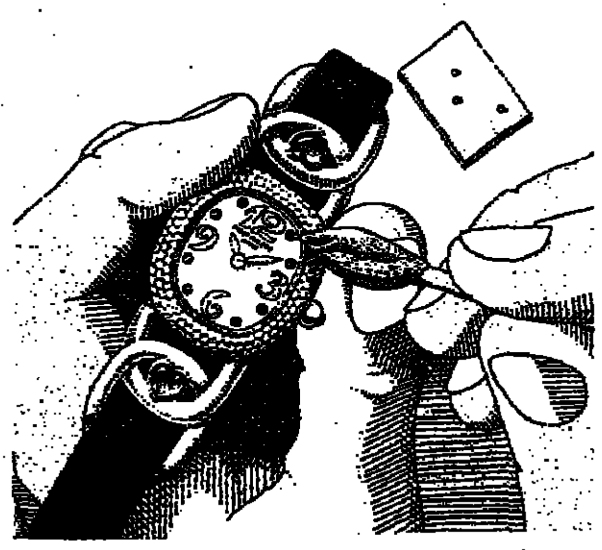
Patek Philippe's 'complete watchmaker', a title reserved for the legendary élite of their craft, meticulously finishes each part of a movement by hand.



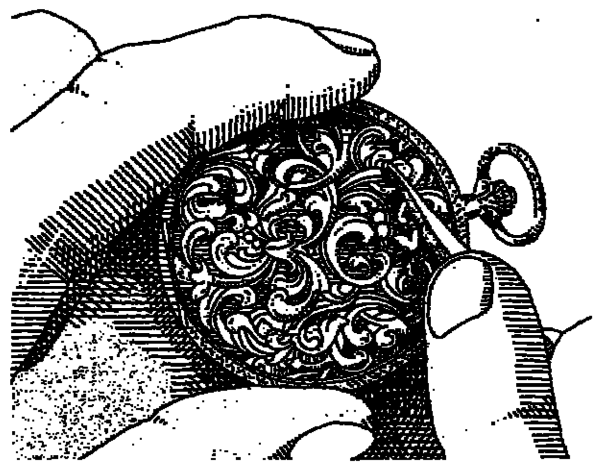
The specialised skills that were once the pride of Geneva's goldsmiths are kept alive in Patek Philippe's workshops.



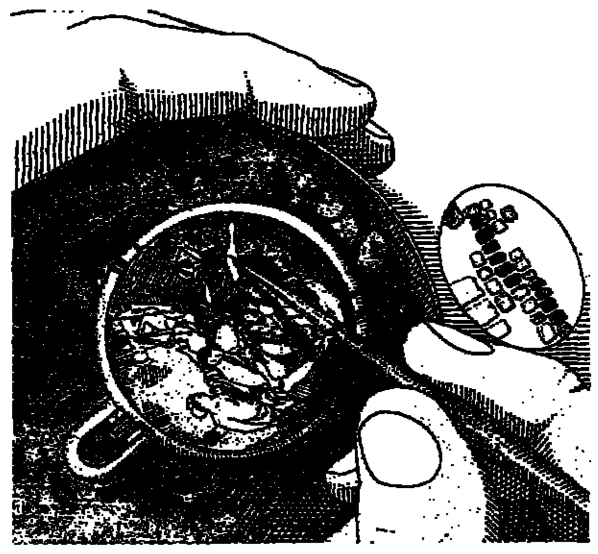
The chainsmith gives the most delicate tracery of a gold bracelet remarkable suppleness and strength.



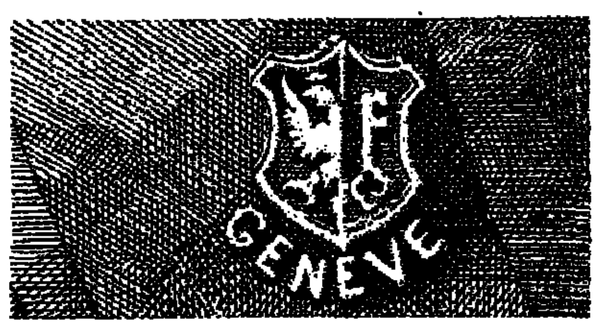
The jeweller reveals his skills in the way he perfectly integrates each gem in its environment of precious metal.



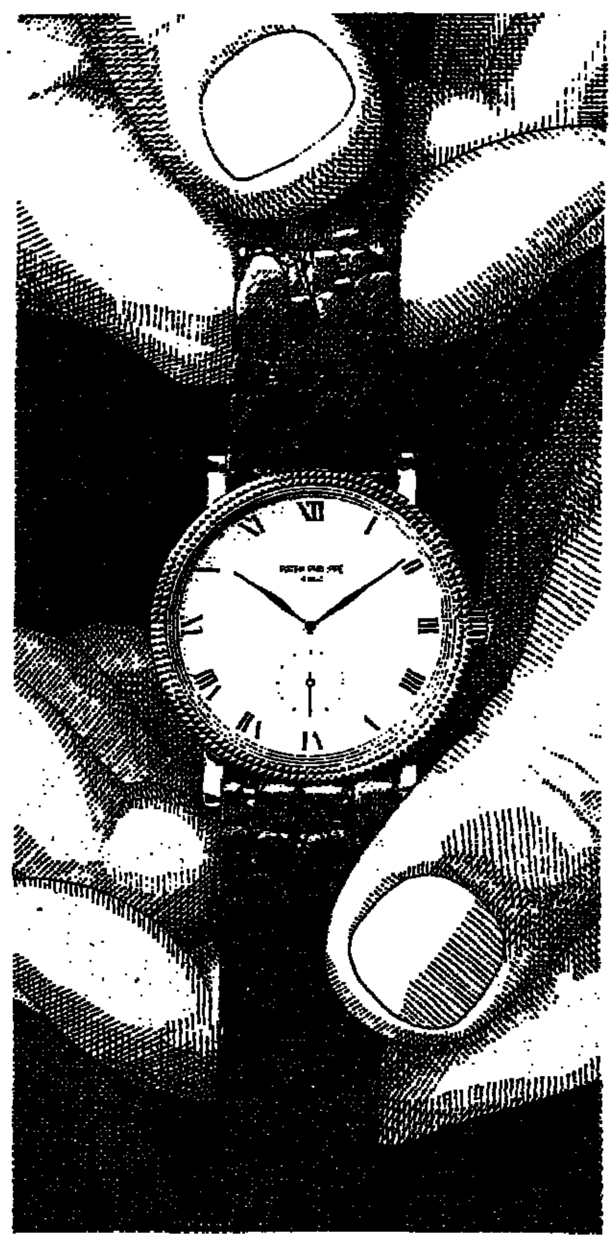
Engraving the cover of a millimetre-thin pocket watch cover requires skills that are almost forgotten.



A miniature masterpiece in enamel takes six months of dedication. Almost all of the world's remaining enamellers work in Geneva for Patek Philippe.



Only Patek Philippe has mechanical movements in regular production which have been awarded the coveted Geneva Seal–the highest mark of recognition in watchmaking.



The hand of a master craftsman alone can shape, polish and assemble the mechanical components of a perfectly functioning precision instrument.

PATEK PHILIPPE
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Should you require information on any particular Patek Philippe watch, or even on watchmaking in general, we would be delighted to reply to your letter of enquiry. And if you send us your card marked 'book catalogue' we shall post you a catalogue of our publications. Rhone Products (U.K.) Ltd., P.O. Box 860, Gerrards Cross Bucks SL9 7SB.

Medicare plan under fire by health lobby

By Jurek Martin in Washington

The American Medical Association, the health industry's largest pressure group, has registered strong reservations about a central ingredient of the Republican plan to reform Medicare for the aged.

Senior AMA officials said that reducing payments to doctors, hospitals and clinics "would be a major blow to the traditional fee-for-service Medicare programme."

Many providers of medical care, they said, might refuse to treat Medicare patients, forcing them into health maintenance organisations and other private insurance plans.

The Republican reform plan states that patients will be guaranteed continuation of conventional Medicare coverage if they prefer, although it encourages them to consider alternatives, including HMOs and medical savings accounts.

The AMA's intervention, disclosed in the New York Times, could be as significant in the unfolding Medicare debate as it was last year in the ultimate failure of the Clinton administration's far-reaching healthcare reform proposals.

The AMA initially backed guaranteed universal health insurance, but later was a leader in the fight against forcing employers to provide such coverage on the grounds that the government was being accorded too big a role in the whole health system.

Opposition to "employer mandates" was critical in the defeat of the administration's overall proposals.

On this occasion, the organisation appears to be acting in the conventional lobbyist's manner by seeking to protect the interests of its members.

It claims that the complex so-called "conversion factor", by which fees are determined for various medical procedures, was being reduced from current levels at a time when medical overheads continue to rise.

The independent Congressional Budget Office has provisionally concluded that the Republican plan could achieve its goal of cutting $270m from the growth in Medicare costs over the next seven years, but that patients, through higher premiums, and doctors, through lower fees, would end up bearing the brunt of the reforms.

Vested interests have so far taken a cautious approach to the proposed Republican reforms of a programme covering 37m Americans, although public opposition, as measured by the opinion polls, appears to be on the rise.

Typical has been the American Association of Retired People, which lobbied hard for the administration's plan last year.

This time the AARP has mostly sat on the fence in the apparent conclusion that it was better to work with the new Republican majority in Congress than try and frustrate it at every turn.

Modest rise in leading indicators

The US government's main economic forecasting gauge rose modestly in August, the Commerce Department said yesterday, partly because of stronger manufacturing activity, Reuter reports from Washington.

The index of leading indicators, designed to forecast economic trends six to nine months ahead, rose 0.2 per cent after a 0.2 per cent decrease in July. The index has risen in two of the past three months, suggesting a firmer underlying tone of economic activity after a weak second quarter.

The index measures a basket of economic indicators ranging from unemployment benefit claims to building permits. Eight of its 11 components strengthened in August while three were weaker.

The department announced last month that it was turning over the leading indicators report at the end of the year to the private Conference Board, which assisted in preparing the August report.

The New York-based Conference Board has 2,200 corporate members and specialises in business research.

The leading indicators in August were led by higher orders for manufactured consumer goods and by fewer claims for unemployment insurance. In addition money supply rose, the average working week was longer, and plant and equipment orders increased. There were more applications for building permits, higher stock prices and increased order backlogs at manufacturing plants.

Brazil's civil service black hole

A bloated payroll lies behind the chaotic state of public finances, writes Angus Foster

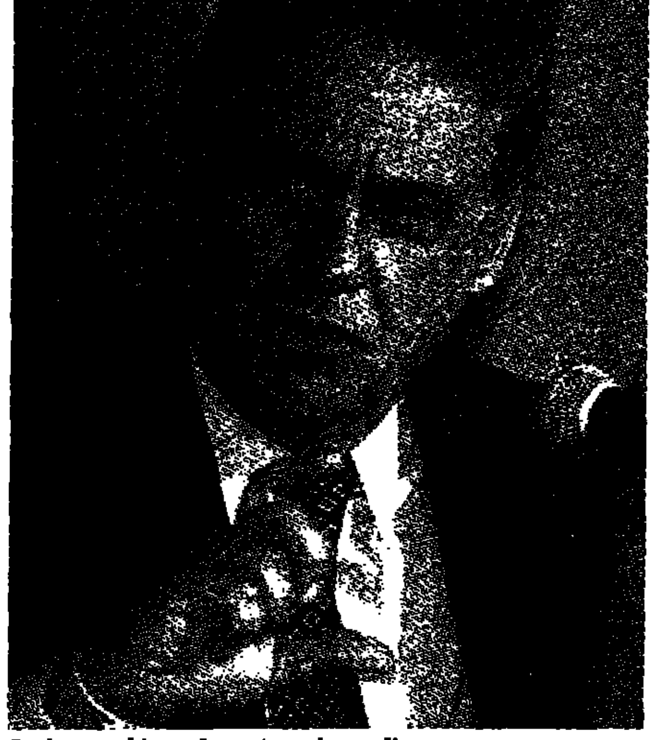
Brazil's southernmost state of Rio Grande do Sul has a voracious monster in its budget. For every R$100 of tax revenues raised, R$81 goes in salaries and pensions for its bloated civil service.

"Any politician today who has been a mayor or governor knows that Brazil's states and municipalities are ungovernable without cuts to the absurdities and privileges in public administration," fumes the state's governor, Mr Antônio Britto.

President Fernando Henrique Cardoso has proposed a number of reforms to help governors bring spending under control. Constitutional laws preventing the sacking of civil servants are to be reviewed and some salaries are to be capped. But the chaos in Brazil's public finances, the result of a decade of high inflation and bad government, will not be easily rectified. Reducing the states' payrolls may simply turn the focus on an even more difficult problem, their debts.

Rio Grande do Sul's budget problems are no different from the rest of Brazil's. The state has the advantage of being one of Brazil's richest and, with the well-regarded Mr Britto newly elected as governor, there is a chance that its public finance problems will be tackled.

Mr Cêzar Busatto, the state's finance secretary, says the new government has already cut some jobs and outlawed some of the abuses built up under previous administrations. About 20 people were found to be receiving monthly salaries of more than R$15,000 ($15,790), even though state law forbids civil servants earning more than the governor's salary of R$8,000 a month.



Cardoso: seeking reforms to curb spending AP

Because of generous retirement packages, 42 per cent of government spending goes on pensions as more and more workers retire early. Mr Mario David Vanin, mayor of the industrial town of Caxias do Sul, complains that the constitution forces him to pay teachers full wages if they want to retire, even though some are able to do so in their early 40s.

Mr Busatto's aim is to cut the state's 322,000 payroll by 15 per cent by the end of 1998. To do so, he needs Congress to approve Mr Cardoso's reform proposals which, among other things, will allow governments to sack surplus workers for the first time. This will be unpopular, especially in northern states where the government is in many cases the biggest employer.

Changing the retirement rules will be just as difficult and separate reform proposals for Brazil's social security system are stalled in Congress because of opposition.

"If we can reduce the physical numbers by 15 per cent and cut the higher salaries, the payroll costs will fall from 80 per cent to 60 per cent. I could then increase the investment rate on things like education, infrastructure and the police force from 3 to 4 per cent of revenues to something like 25 per cent," says Mr Busatto.

The abuses in Brazil's government machinery were able to continue unchecked only so long as inflation remained high. With inflation at 30 or 40 per cent a month until July last year, it was difficult to keep track of government spending. State governments were also able to push payroll costs down by paying salaries late, allowing inflation to reduce real wages.

With monthly inflation now less than 2 per cent, the federal and state governments are discovering some unpleasant skeletons in their fiscal closets. Probably the most disturbing relates to state government debt, which is ballooning dangerously because of Brazil's still high real annual interest rates of more than 30 per cent, as a result of the government's continued tight monetary policy.

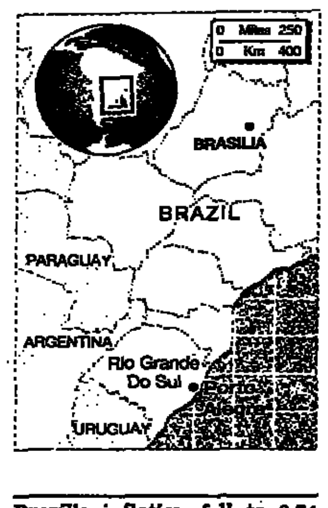
By far the most pressing problem is the states' tradeable debt, mainly held in the form of short-term securities. At the end of June, tradeable debt issued by the states totalled US$33.9bn and was almost totally owed by Brazil's four most important states, São Paulo, Minas Gerais, Rio de Janiero and Rio Grande do Sul.

Some are calling for federal government help in restructuring their tradeable debt. They are suggesting selling state assets to pay off part of it and seeking federal government support to restructure another portion into international debt at international rather than Brazilian interest rates.

Although the federal government says it is open to suggestions, it has so far been slow to help the states.

But, says Mr Busatto, state debts are "out of control". Rio Grande do Sul has not issued any new debt in the last five years, yet its outstanding tradeable debt has grown from US$1.3bn in December 1991 to US$4.7bn last month. The interest costs on this debt have reached R$150m a month. Total government receipts in August were R$266m.

"There's no way the state can afford to pay this debt, we can only roll it over. Our debt has grown at an average annual rate of 31 per cent, exclusively because of the absurd interest rates we have to pay," he says.



Brazil's inflation fell to 0.74 per cent in September, the lowest figure since December 1973, according to the Economic Research Institute (Fipe), Reuter reports from São Paulo. In August, inflation was 1.43 per cent.

A drop in food and clothing prices was the main reason for the fall, Mr Juarez Rizzieri, president of the Fipe institute and co-ordinator of the Fipe index said.

Debate is raging in Washington over 'corporate welfare' for agriculture, reports Laurie Morse

Cosseted US farmers may face $1.7bn payback

US wheat farmers will be forced to repay $608m in advance subsidy payments to the government this year, as market prices move above "target" levels that qualify the crop for government support. The development comes as debate rages in Washington over what opponents call "corporate welfare" for agriculture.

It is the first time in the history of the US wheat subsidy programme that such a payback will be required. Tight world grain supplies and rapidly rising global food demand have pushed the season average market price for wheat at the farm gate over $4 per bushel. Under US farm law, that price is considered high enough to provide a fair income to producers and make subsidy payments unnecessary.

Maize and other feed grain prices will also top their subsidy targets this year, according to US Department of Agriculture projections, leaving the US Treasury expecting a total of $1.65bn in advance grain subsidy refunds from farmers by late next summer.

The advance payments were made last March, based on Department of Agriculture price projections that under-estimated the strength of the market.

The target price system is a cornerstone of existing US farm laws that are up for revision in Washington. For nearly 60 years, US agriculture policy has sought to provide an income safety net to farmers during lean years, and leave them to market forces when prices are high.

However, reforms championed by the Republican leadership would guarantee subsidy payments to farmers, on a diminishing basis over the next seven years, regardless of how high or low market prices move. This would cut $13.5bn from the farm budget during the period, but Democrats have sought to block the measure, known as the "Freedom to Farm Act," because of the temporary windfall it would create for farmers currently enjoying their strongest markets in two decades.

The Democrats have been succeeding because they have been joined by a handful of rebel southern Republicans who seek to preserve generous subsidies cultivated over many years for southern commodities such as rice, cotton, and peanuts.

> Cotton and rice producers can expect a second subsidy cheque of $800m in price supports

This year, for example, while prices for cotton and rice are also soaring, producers will be allowed to retain their advance subsidy payments. They can even expect to receive a second government subsidy cheque this winter, after harvest, for a total of about $800m in price supports.

They will get to "double dip", where grain farmers will not, because target prices for cotton and rice have been set artificially high. Price support programmes for other southern commodities, such as peanuts, have also been liberally drawn. With high market prices and subsidy payments already secure, southern farmers have nothing to gain from "Freedom to Farm".

This regional split has cost Mr Pat Roberts, the House agriculture committee chairman and author of the "Freedom to Farm" act, his chance to direct this year's farm policy overhaul from within his own committee. Last month, admitting an impasse, he promised to transfer the farm subsidy debate to the House budget committee and said he would like to see "Freedom to Farm" offered to the full House floor, where he believes it will get strong majority support.

Mr Richard Lugar, Senate agriculture committee chairman, managed to break a similar impasse on his committee before this week's recess, passing by a narrow margin a compromise bill that also cuts more than $13bn from the farm budget, but leaves most of the existing price support programmes, including the target price system, intact. Its savings are achieved by reducing the number of acres available for subsidy payments.

The wrangling in Washington will have no impact on this year's subsidy payback by grain farmers. They will be given a choice of writing a cheque for the government, or foregoing a portion of next year's subsidies.

Although grain prices are forecast to remain high through next season, Department of Agriculture policy makers say that given just a normal world crop next year, wheat prices are projected to fall back below $4.

"We won't have any trouble getting the [$1.65bn] back," said one policy analyst. "They'll pay us so they can get more money next year."

Killer Hurricane Opal threatens Florida coast

Hurricane Opal became a powerful storm early yesterday as it raced toward the coast of northern Florida with 150mph winds, forecasters said, Reuter reports from Pensacola.

Opal's heavy rains were blamed for at least 10 deaths in the Mexican states of Campeche and Tabasco.

Thousands of residents of Florida's northern coast fled their homes, jamming an interstate motorway in their haste to move inland to shelters and hotels. Even the local newspaper was forced to evacuate its office and printing plant.

Forecasters said they were concerned about Opal's eye, which had shrunk during the early morning hours to a mere 10 miles wide from 30 miles. A smaller eye usually indicates a more powerful and intense storm.

Opal surprised forecasters by growing rapidly from a minimal hurricane on Tuesday to a dangerous category four storm as it swirled over the warm waters of the Gulf of Mexico.

Its maximum sustained winds surpassed those of the deadly Hurricane Andrew, which wrought destruction on south Florida in 1992.

The national hurricane centre issued a hurricane warning from Mobile, Albama, to Anclote Key, Florida.

Although forecasters were unable to pinpoint where Opal was most likely to roar ashore, residents of the Florida Panhandle were braced for what may be the third hurricane of the season to strike them. Allison limped ashore near Apalachicola Bay in June with barely hurricane-strength winds, and Erin struck in early August, causing $12m in damage to the Pensacola area.

FINANCIAL TIMES
COMPANIES & MARKETS

Thursday October 5 1995

IN BRIEF

Banque Directe recruits 16,000

Banque Directe, the French telephone bank owned by the Paribas group, has recruited nearly 16,000 customers during its first year of operation. Mr Bernard Auberger, chairman, said: "The lesson is to produce a simple product that responds to clients' needs."

Meanwhile, Crédit Mutuel, France's fifth largest banking institution, reported strong growth in deposits and loans in the first eight months. Page 16

Orkla profits leap 44%
Orkla, the Nordic region's biggest food and drinks producer, saw a 44 per cent jump in pre-tax profits to NKr1.4bn ($222m) in the first eight months of 1995. Page 16

Argentine oil group sheds the flab
Mr Nells León, president of YPF, Latin America's largest private oil group, has transformed the Argentine company from a "fat man weighing 500 kilos ... into an athlete able to run the 100 metres in nine seconds flat". Page 18

Japanese broker launches a lottery
Nomura Securities, Japan's largest broker, plans to revive business by launching a lottery tied to investment accounts, with the lure of monthly prizes of up to Y50,000 ($493). Page 19

High-tech: low take-up
The Jakarta Stock Exchange is now equipped with state-of-the-art technology, yet potential domestic investors have shown little interest. Page 19

Lucas hopes US will lift ban
Lucas Industries, the UK aerospace and automotive company which has just agreed to pay $88m in damages to the US Department of Defence over contract breaches, expects to have a bar preventing it from bidding for further DoD work lifted shortly. Page 20

French arm drags down Blenheim
Interim pre-tax profits at Blenheim Group, the exhibitions organiser, fell 31 per cent after losses at its French operation. However, the group made positive comments about trading in France in the second half. Page 21

Schroder supports MBO at Tarmac
Schroder Ventures, the private UK equity investor, is supporting a management buy-out regarded as the front runner to purchase the UK housing operations of Tarmac, one of the UK's biggest builders. Page 21

Growth curbed at Bank of Scotland
Bank of Scotland reported nearly flat operating profits before provisions for bad and doubtful debts, with costs rising and income suffering from squeezed margins. The bank's shares closed 7p down at 240p as analysts said they were concerned at a lack of underlying growth. Page 21

Russia faces a grim reaping
Bad weather and lower investment in the agricultural sector has produced Russia's worst harvest in three decades. Page 22

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Asko Prf	760	+	20
Lahmeyer	565	+	20
Porsche	700	+	10
Rheinmetall	240	+	10
Falls			
Altana	831	–	12
Lahmeyer	565	–	20
NEW YORK ($)			
Falls			
DuPont	64¾	–	1⅛
Intl Paper	39	–	1⅛
LSI Techn	50¾	–	6
Ltd Techn	83⅞	–	1⅞
VLSI Techn	28⅛	–	3⅛
Zilog	39	–	1⅞
LONDON (Pence)			
Rises			
Abacus Group	275	+	27
Innovative Tch	120	+	28
Pacer Systems	125	+	19
Vickers	262	+	17
Falls			
Proteus	104	–	15
Wood (Arthur)	175	–	20
TORONTO (C$)			
Rises			
Can Sth Pete	9½	+	⅜
Dorel Inds A	10	+	¼
The Scud Cop	10½	+	½
Falls			
Four Seasons	16	–	1
Repub Waste	27	–	2¼
Spectrum Sig	11⅛	–	1⅛
PARIS (FFr)			
Rises			
Alcatel	454.9	+	13.3
Sagem	2720	+	55
Falls			
BIC	448	–	10
CGIP	954	–	11
Cred Lyon	288.5	–	9.8
Gen des Eaux	459.8	–	18.2
TOKYO (Yen)			
Rises			
Fanuc	4800	+	320
Nip Signal	777	+	32
Tokyo Steel	2170	+	170
Falls			
Chugai Phrm	990	–	30
Hazama Corp	432	–	13
Kagome	910	–	35
HONG KONG (HK$)			
Rises			
Cons El Pwr	18.3	+	0.50
Gl Eagle	20.75	+	1.10
Lucky Man Ppt	4.9	+	0.80
Falls			
Chen Hsong	5.25	–	0.35
Chi Cheung	2.4	–	0.17
Tung Fng Hng	1.2	–	0.11
BANGKOK (Baht)			
Rises			
Poompipat Fin	78.5	+	4.0
Safari Wrld	113.0	+	9.0
Thai Sinty Bl	70.0	+	4.5
Falls			
Rockworth Pub	44.0	–	3.5
Siharin	30.25	–	2.75
Thai Carpet	16.25	–	1.25

New York and Toronto prices at 12.30pm.

Franco-US drugs group is expected to add up to 20p to the 240p a share cash offer

RPR poised to raise bid for Fisons

By Motoko Rich in London

Rhone-Poulenc Rorer, the Franco-US drugs group, was last night poised to raise its £1.7bn ($2.6bn) hostile bid for Fisons as the UK pharmaceuticals group made its final plea to shareholders.

RPR declined to comment yesterday, but it is understood that it would be prepared to meet market expectations and add about 10p-20p to its 240p a share cash bid. It must make a final bid by tomorrow.

Fisons' shares rose 2p, to close at 259p, yesterday. The shares have rested above the offer price since the bid was launched in August.

Mr Stuart Wallis, Fisons chief executive, reiterated that the group's resistance to RPR's bid was a matter of price rather than independence. "This whole battle has been fought on a question of value. It does not reflect a desperate desire to retain our independence. If somebody – RPR or anyone else – does come along and make the right offer then it would be right and proper for us to recommend it to shareholders."

Mr Wallis, who has 888,000 share options and stands to make £1.01m at the 240p a share offer price, declined to say what the right offer would be. But it was understood yesterday that the board could recommend an offer around 270p-280p per share.

However, it is believed that if RPR were to raise its offer to 250p-260p, Fisons would continue to fight the bid.

Last Friday marked the last date for Fisons to disclose new financial information. Yesterday, it wrote to shareholders, questioning RPR's strategy if the bid were to fail.

In the letter, Fisons asked if RPR would be able to meet its stated aim of "becoming a major player in the asthma market ... if it does not acquire Fisons"

The UK group questioned RPR's asthma drug pipeline and its ability to gain access to a multi-dose dry powder inhaler – such as the Ultrahaler being developed by Fisons. The UK group queried RPR's ability to develop an HFA 134A propellant – an inhaler system which is intended to replace ozone-depleting CFCs.

Fisons further emphasised the importance for RPR of the UK group's marketing infrastructure in Japan and Europe.

RPR said yesterday: "Respiratory drugs represent 10 per cent of sales at RPR. It is certainly an area that the company has identified as important and Fisons is the best fit. But if the bid was unsuccessful, the opportunities to build rather than buy are huge."

Escom founder buys telecoms group

By Michael Lindemann in Bonn

Mr Manfred Schmitt, the founder of Escom, one of Europe's largest personal computer production and distribution companies, yesterday expanded further into the telecoms business by buying Hagenuk, the loss-making German telephone manufacturer.

Preussag, one of Germany's leading steel and engineering companies, sold the company for an undisclosed sum. The sale marks Preussag's final retreat from telecoms, a business it flirted with until the investments turned out to be too large.

Mr Schmitt, who still holds 51 per cent of Escom, said the Hagenuk purchase was "a private matter" not directly linked to Escom, but noted there were clearly overlaps between telecoms and the chain's present business which is 80 per cent dominated by PCs.

"The PC is ultimately a telecoms product," Mr Schmitt said. "In years to come we are going to see these two areas grow closer and closer together."

The Hagenuk purchase comes just days after Escom said it planned to sell a 12.5 per cent stake to RWE Telliance, the telecoms subsidiary of energy-based conglomerate RWE, which plans to use the chain's 145 shops in Germany to market its telecoms services. Escom has 450 shops across Europe.

Mr Schmitt, 44, said Hagenuk had a range of innovative new products which could be marketed worldwide.

These include a new phone, based on the worldwide Global Standard for Mobile Communications or GSM standard, which could be used both as a mobile and a conventional fixed-link phone.

Hagenuk is developing a new Digital European Cordless Telephone (DECT), a standard which may be introduced in Germany for use in local telecoms traffic.

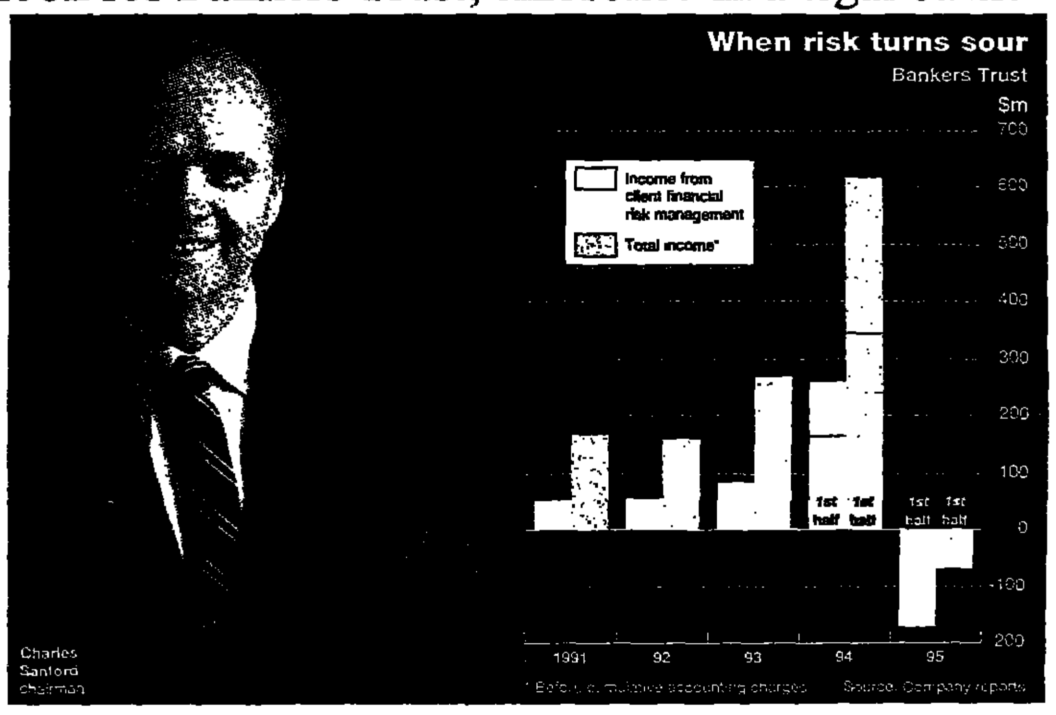
Mr Schmitt hoped to sell the Hagenuk phones directly to Deutsche Telekom and other telecoms operators but the phones might be available through the Escom chain.

Hagenuk, based in Kiel, had sales last year of DM400m ($280m) but a loss of around DM80m. It has recently disposed of a variety of non-telecoms business.

Alongside Siemens, it is the only other German manufacturer of mobile phones. It used to be one of the main suppliers to Deutsche Telekom, the German state-owned operator, but was hit when the German market for phones was liberalised and when the market moved from analogue to digital systems.

Richard Waters reports on the outlook for Bankers Trust, embroiled in a legal battle

Reputation on the line as the mud keeps flying



Charles Sanford chairman

Any doubts about the depth of the animosity between Bankers Trust and Procter & Gamble should have been dispelled on Tuesday.

The US consumer products company won legal permission to proceed with a complaint against the bank under the US's anti-racketeering legislation – a severe blow to the bank's reputation. The year-old battle over two loss-making derivatives bought by P&G had just turned much more ugly.

Bankers Trust, meanwhile, was happy to point out P&G's shortcomings, evidenced in documents made public for the first time. Those 300,000 pages of evidence are likely to provide ample ammunition for mudslinging on both sides.

The fate of Bankers Trust will depend on more measured judgments than these. It hangs on the views of two men: Mr Benjamin Civiletti, a former US attorney general; and Mr Derrick Cephas, formerly New York state superintendent of banks.

At the request of a bevy of regulators – the Federal Reserve, the Securities and Exchange Commission and the Commodities and Futures Trading Commission – the two have been investigating Bankers Trust's derivative activities since the middle of April. That examination is due for completion by the middle of this month. The two investigators are believed to have indicated that they would not complete their deliberations until late December.

The immediate focus of the review is to assess how deep the bank's leveraged derivatives problems ran. The fate of a handful of executives who have been identified with the contracts sold to P&G, among others, will depend on the outcome.

The ramifications of the review will go far. Among the issues left open are the shape of the bank's senior management team, and even its future as one of the biggest New York trading houses.

Bankers Trust has maintained from early on that its problems have been limited to one trading desk and a handful of employees.

P&G's claims that it was "but one of a series of companies lied to, exploited and cheated" by Bankers Trust adds an extra twist. However, these allegations remain limited to the leveraged derivatives area.

Questions surround a number of senior posts. Mr Charles Sanford, the chairman who masterminded Bankers Trust's emergence as a leader in the derivatives markets, will retire by next summer. Mr Tim Yates, chief financial officer, is due to take early retirement next year at the age of 48.

The future of Mr Sanford's chosen heir, Mr Eugene Shanks, appears in the balance. Mr Shanks, the bank's president, is widely seen as a strong candidate for the top job – though his career could be derailed if the Civiletti/Cephas investigation raises doubts about his role in past mistakes. "I'm sure they'll follow it up the chain of command as far as they feel they need to go," said one bank official.

Waiting in the wings is Mr Frank Newman, a former deputy US Treasury secretary. He is a former chief financial officer of BankAmerica, and has already taken charge of all control, finance and administrative functions. Should Mr Shanks stumble, he looks well positioned.

While questions over the top executives remain unresolved, the bank's financial performance has at least stabilised after a disastrous start to the year. It bounced back from a first-quarter loss into profit in the second three months. Third-quarter figures, due in two weeks, should show that improvement continuing, thanks to cost-cutting and a buoyant US bond market.

Bankers Trust's involvement in the market for the most complex – and profitable – derivatives in the US now remains minimal, but it continues to make headway in European derivatives and the emerging markets, one rival says.

It also continues to be a leader in arranging sub-investment grade financings and its proprietary trading activities mark it out as one of the powerhouses in fixed income.

It is no wonder that a wounded Bankers Trust is being talked of as a potential takeover target. The US's rampant bond rally has helped the bank's shares recover from their spring slump but they have failed to match the bounce of other US banks' shares.

Wall Street believes a European bank, such as Deutsche Bank or Union Bank of Switzerland, may see this as an opportunity to buy a powerful US trading institutions on the cheap. Or a US super-regional bank may see it as a chance to gain a stronger foothold in the US and international capital markets.

Until Mr Civiletti and Mr Cephas pass judgment, it seems unlikely that any prospective buyer would want to proceed.

Lex, Page 24; Fresh evidence, Page 30

NTT and C&W in mobile phone deal

By Alan Cane in Geneva

NTT, the world's largest telephone operator, and Cable and Wireless of the UK have formed a partnership to promote a new mobile phone outside the Japanese market, where it has proved a success.

The Japanese telecoms group will announce on Monday the formation of a four-way joint venture.

It is collaborating with C&W, Hong Kong Telecom – a subsidiary of C&W – and Itochu, formerly C.Itoh. Equity in the venture, provisionally called PHS International, is said to be equally spread between the four. The initial investment will be about $4m.

NTT said PHS represented the group's efforts to form partnerships around the world to standardise personal communication technology. In digital portable phones it faces competition from the European GSM standard.

The alliance will chiefly be a marketing organisation for the Personal Handyphone System (PHS). Cable and Wireless spent £10m ($15.5m) in February to secure a 5 per cent stake in NTT's PHS operations. The company started marketing the system in Tokyo and Hokkaido in July and has about 100,000 customers.

Personal handyphone systems are small, light and comparatively inexpensive. Sound quality is excellent and they are capable of transmitting data, facsimile images and video picture in addition to voice.

The handyphones operate from a base station in the home, rather like a conventional cordless phone, but can be used while walking in towns. They are not suitable for use in cars.

The system is similar to the ill-fated telepoint phones which failed in the UK. However, these phones have proved popular in densely populated areas in Asia and France. PHS systems are digital, rather than the analogue technology featured in telepoint.

PHS phones have only been sold in Japan. The new venture will begin by tackling Asian markets. There are no plans to offer PHS in the UK.

C&W's critics, who have said that the company's partnership strategy is ill-directed, may argue that the new venture again does not fit into a clear and simply articulated strategy for the group.

When breaking up is hard to do, Page 32

GT Chile takes complaint on Regent to UK regulators

By Roger Taylor in London

The board of GT Chile Growth Fund has accused Regent Kingpin, the investment management company trying to take control of the fund, of making inaccurate statements and has complained to financial regulator Imro.

Regent Kingpin is asking shareholders to vote in favour of a motion putting them in control of the fund, which has net assets of $517m, after which it would return cash to shareholders.

The board has put forward its own proposals, which would allow investors to cash in a just third of their shares initially.

The two managers are arguing over whether Regent's proposed liquidation of the fund complies with Chilean law, which lays down rules for the repatriation of foreign investment capital.

The row came to a head yesterday, when Regent announced that the Chilean Superintendency, which is responsible for investment schemes, had sent it a letter stating that its proposals needed no authorisation as long as they complied with Chilean law. Regent said this was equivalent to giving the scheme approval.

However, the Superintendency said it did not give approval to schemes and its letter did not imply it was legal.

Mr Peter Stevens, chairman of GT Chile Growth Fund, said it was wrong for Regent to imply that the scheme had been given a green light since the Superintendency had the power to block repatriation of funds at a later date.

He added: "In our opinion they have destroyed what little credibility they had and should not be entrusted with our shareholders' funds."

In an earlier letter, the Superintendency had said that the GT Chile board's proposals did conform with Chilean law on investment funds.

Regent said yesterday this letter merely used the board's plan as an example of the type of scheme permissible and applied equally to its proposals.

Shareholders must vote in the next few days in favour of one or other proposal.

GT says that a clear majority of shareholders have now indicated support for its proposals. Regent says it has the support of investors holding 34.6 per cent of shares.

Imro confirmed it had received a complaint from GT Chile, which it would be investigating.

EUROPEAN NEWS DIGEST

Sales rise fails to lift Saga Petroleum

Saga Petroleum, Norway's largest independent oil company, yesterday unveiled a 14 per cent fall in pre-tax profit, from NKr1.4bn to NKr1.2bn ($190m) for the eight months to August 31. The figure was struck on sales of NKr4.2bn, against NKr3.9bn. Operating profits were NKr1.3bn compared with NKr1.01bn. Net profit of NKr352m, down from NKr521m, worked out at earnings per share of NKr2.7 against NKr4.1.

The company said oil sales volume for the period was 25.3m barrels compared with 23m a year earlier. The average sale price was NKr109, down from NKr111 in the first eight months of 1994.

The fall was mostly attributed to a one-off NKr100m loss on extraordinary items, compared a gain of NKr350m a year earlier, when Saga enjoyed positive currency effects on its dollar debt and capital gains on its sale of shares in Elkem.
AFX News, Oslo

IBM in Swedish venture

IBM of the US said yesterday it was setting up a joint project with the Swedish software group IBS. The idea is to produce commercial applications of the emerging object-oriented technology which aims to achieve cheaper and more efficient software development.

Object orientation is a new system for writing software based on the creation of different application components which can be run in different computer environments. The components can be fitted together like building blocks – or detached – to make customised systems for users.

IBM said the venture with IBS, in which IBM is a 10 per cent owner, would be based at IBM's laboratory at Boeblingen in Germany. "This is one of IBM's most important development projects within the software area," said Mr Steve Carter, IBM manager of application frameworks. IBM is spending some $25m on developing its object-oriented technology strategy.
Hugh Carnegy, Stockholm

Danzas sells travel division

Danzas Holding, the Swiss freight forwarding group, is selling its travel division to fellow Swiss travel groups Kuoni Reisen and Imholz, a unit of retailer Grands Magasins Jelmoli. Danzas said it wanted to focus its business on its core freight activities.

It said Kuoni was buying all the shares in the travel division, Danzas Reisen, retroactively effective as of January 1 1995. Kuoni will take over 39 Danzas travel offices, mainly in the business travel sector, for integration into its own business travel section. Imholz will buy 18 other Danzas offices, mainly active in holiday sales, for its own strategic focus on tourism travel. Danzas said its French travel unit, Danzas Voyages (France) was not part of the sale and that it was seeking a separate solution there. *Reuter, Zurich*

Swiss Re, CS Holding expand

Swiss Re, the world's second largest reinsurance group, and CS Holding, the financial group built around Crédit Suisse, have established two funds in Bermuda to make equity investments in insurance companies worldwide. They have provided $500m in equity for the two closed investment partnerships, Securitas Capital Partners I and Securitas Capital Partners II, as a step to participating in a global insurance merchant banking programme. The funds are part of a strategic alliance agreed in December. *Ian Rodger, Zurich*

Weakness on UK side holds back UAP

By Andrew Jack in Paris

Union des Assurances de Paris, the French insurance group, has reported net income down 5.5 per cent to FFr806m ($164.1m) for the first six months of the year.

A decline in capital gains from the sale of assets compared with the first half last year pushed down income in spite of flat sales, at FFr81bn.

Life assurance progressed in all continental European markets – growth was particularly strong in France – but turnover in the division fell 8.4 per cent, largely because of the negative result in the UK, accentuated by a worsening in exchange rates.

Sun Life, the UK subsidiary of which it obtained full control earlier this year, suffered from weak conditions, which UAP said was hurting the entire UK life assurance market.

Non-life business turnover across the group rose 7.4 per cent, or 2.8 per cent in constant terms, before taking into account the consolidation of Provincial, the UK company acquired and integrated from the start of this year.

Net income from all insurance activities rose 7 per cent to FFr1.8bn. Banking activities sharply improved, with a FFr438m loss in the first half last year converted into a profit of FFr61m. UAP said Banque Worms was continuing its restructuring in line with its budget.

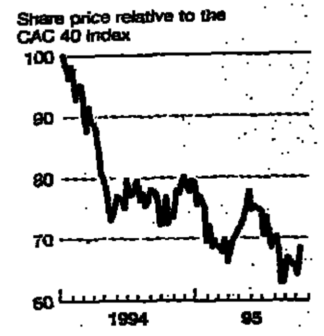
A sharp drop in capital gains turned a net income of FFr142m in the holding company last time into a loss of FFr454m. Amortisation charges rose FFr66m to FFr575m.

UAP said there had been continued improvement in its technical results in non-life business, and in its efforts to reduce the costs of intermediation in both life and non-life business. However, it stressed that the volatility of the financial markets – notably in France – made implementing its policies and improving results difficult.

In a veiled reference to the extraordinary provisions made last week by rival Assurances Générales de France, Mr Jacques Friedmann, chairman, said UAP had no need to make similar adjustments.

UAP

Share price relative to the CAC 40 index



Source: FT Extel

Banque Directe 'content' with start

By Andrew Jack

Banque Directe, the French telephone bank owned by the Paribas group, yesterday announced it had recruited nearly 16,000 customers in its first year of operation, triggering optimism about the potential for broader applications of providing financial services by telephone in the country.

Mr Bernard Auberger, chairman of Banque Directe and of Crédit du Nord, a Paribas subsidiary, said: "We are very content. This is in line with our predictions. The lesson is to produce a simple product that responds to clients' needs."

Banque Directe had 15,876 clients by the end of September, and should have 20,000 at the end of this year and at least 40,000 by the end of 1996. Mr Auberger said he was still aiming for profitability within the next five years.

The company said the number of customers was in line with those recruited by First Direct, the UK telephone banking group owned by Midland Bank, during its first months of operations. This was in spite of scepticism that a similar rate of uptake could be achieved in France.

However, Mr Etienne Pflimlin, chairman of Crédit Mutuel, the French mutual bank, claimed yesterday that the number of customers was below the level that Banque Directe had predicted when it launched its service in September last year.

Ms Claude Gasné, managing director of Banque Directe, said clients' deposits ran to several hundred million francs, and the average amount held in accounts was 1.5 times the banking French average.

She said the company had broadened its initial range of services by about 10 to 40 – still far fewer than high street banks, in a deliberate attempt to focus on the options most demanded by clients. It now employed 77 people.

Other services were planned, and the bank was experimenting with the use of video-telephones and a range of multimedia applications.

Banque Directe had initial share capital of FFr100m ($20m), and is 5 per cent owned by Crédit du Nord and 95 per cent by Compagnie Bancaire, two subsidiaries of Paribas. It spent FFr40m during its first year on advertising, and two weeks ago launched a renewed publicity campaign which expected to cost FFr9m.

Among the company's clients, the average age is 35; 68 per cent are men and 63 per cent come from professional classes. Half live in Paris and most in urban areas. About 60 per cent said they were very satisfied with the service and only 1 per cent had decided to close their accounts.

Crédit Mutuel enjoys solid growth in deposits, loans

By Andrew Jack

Crédit Mutuel, the mutual which is France's fifth largest banking institution, yesterday reported strong growth in deposits and loans during the first eight months of the year.

The group does not provide detailed interim financial information. However, it said total deposits had risen 8.5 per cent to FFr475.6bn ($96.9bn) in the period to August 31 this year. Banking deposits rose 11.7 per cent to FFr320bn, and revenues from the sale of financial investment products by 2.3 per cent to FFr155.6bn. Loans rose 8 per cent to FFr223.8bn.

At the end of August, 28 per cent of deposits were held in Livret Bleu, a savings account which carries tax deductions, and 23 per cent in special accounts designed for future mortgage borrowers. Among its loans, 45 per cent were for house loans, 25 per cent for business and 18 per cent for consumer borrowing.

For 1994, Crédit Mutuel reported net income of FFr1.6bn on banking income of FFr17.2bn, after taking provisions against doubtful debts of FFr1.4bn. It had a solvency ratio of 15.9 per cent.

Mr Etienne Pflimlin, chairman, said his objective was to make the bank the primary one for its customers, in a country in which many individuals hold accounts with a range of different banks. He said the bank was considering launching a telephone banking service, but no final decision had yet been taken.

He confirmed that – in line with a growing number of French banks – its mutual organisation covering Brittany was to begin selling non-life insurance to its customers from the start of next year, alongside the existing life assurance products.

● Accor, the French hotel group, said its results in the domestic market were improving, in spite of a weak hotel sector, blamed on terrorist threats and reactions to French nuclear testing. AFX News reports from Paris.

"Our results are improving in France, where we are beginning to benefit fully from synergies with Wagons-Lits," said co-chairmen Mr Paul Dubrule and Mr Gerard Pelisson in an interview with Les Echos, the business daily.

Orkla lifts eight-month earnings to NKr1.4bn

By Christopher Brown-Humes in Stockholm

Orkla, the Nordic region's biggest food and drinks producer, has announced a 44 per cent jump in pre-tax profits from NKr977m to NKr1.4bn ($222m) in the first eight months of 1995.

The Norwegian group has just completed a SKr4.25bn purchase of the food operations of Volvo, the Swedish vehicle manufacturer, while entering a joint venture with Volvo combining their beverage activities.

The agreements have been modified to meet the concerns of competition authorities in the European Commission, Norway and Sweden. All authorities have now given the deal their blessing.

Profits rose in spite of a fall in operating revenues from NKr13.36bn to NKr13.25bn following disposals. Operating profits climbed from NKr918m to NKr1.15bn, helped by a NKr114m capital gain.

The group's operations showed a stronger trend in the second four months, helped by shifts in product mix and efficiency improvements within beverages. Operating profits in this period rose from NKr629m to NKr715m and pre-tax profits from NKr678m to NKr811m.

Procordia Food and Abba Seafood, Volvo's food businesses, will be included in Orkla's figures from October.

Plugging in to electronic banking

Germans are moving quickly into high-tech, non-branch services

Germany's banks are up to something new. In a country with one of the world's most dense banking networks, they are tempting customers with services which need no branches and few staff and rely on technology rather than personal contact.

Electronic banking is taking off in Germany, driven by demand and cost pressures. While German banks have far to go to match the penetration of direct banking in the US and UK, they are proceeding faster than competitors in continental Europe.

All big German banks have some form of non-branch service, mostly involving telephones but with personal computers gaining in importance for current account and discount broking business. If Microsoft's Windows 95 operating program stimulates home computer use, electronic banking could receive an extra impetus.

"It's very important that software is developed which overcomes people's hesitancy about new technology," says Mr Heinz-Jörg Platzek, a director of Dresdner Bank.

Intuit, a US rival of Microsoft, is helping to provide just that. It is talking to banks about using its Quicken financial software to facilitate customers' digital access to their networks. Banks have different online systems and are likely to give customers Quicken – a best-seller in the German software market and adapted for use with leading banks – or sell it to them cheaply.

Mr Dieter Neujahr, central European director of Intuit, which has operated in Germany since mid-1994, says there are about 300,000 Quicken users in Germany and the number is rising fast. "It has just been sucked up by the market. Most people say they want it for home banking."

First off the mark in Germany with direct banking was Commerzbank. It began Comdirect with share capital of DM50m ($34.7m) in February to woo customers wanting to carry out deposit account, investment and other transactions quickly and cheaply without advice. Citibank of the US is also starting a direct banking service in Germany.

However, a bigger push came with the launch on September 25 of Deutsche Bank's Bank 24, its direct bank for a whole range of day-to-day banking and stockbroking services. Its target is 500,000 customers in four years, of which it hopes about 80 per cent will come from outside the parent bank. Bank 24, with capital of DM120m, will be based in Bonn and employ about 500 people.

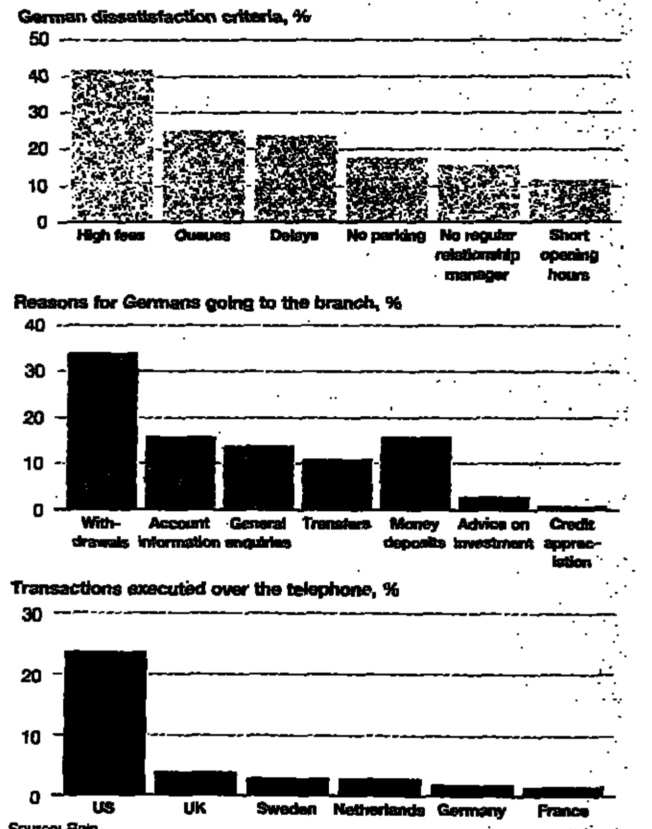
Analysts estimate its promotional campaign could cost up to DM50m, with the aim of attracting as many private customers to the new service as possible to gain cost advantages. "What they hope to achieve, if they get 500,000 customers, is a cost base well below the competition," says Mr Andreas Schmitt, analyst at Barclays de Zoete Wedd in Frankfurt.

He calls the move to electronic banking "a sign of the sharp pressure on margins from all sides which banks are attempting to combat as best they can". Profits on basic lending and deposit business have been squeezed and banks want to trim their costly branch networks and use them more efficiently.

"Banks face a huge shake-up," says Mr Bernt Weber, a director of Comdirect, which is expanding its services. "It will be evolution, if not revolution. The age of home banking is upon us." Comdirect will be accessible by PC next year, when it plans to be on the Internet, the worldwide computer link-up. Bayerische Vereinsbank, intending to start a direct bank in 1996, has linked with Microsoft's online network.

Comdirect, based near Hamburg with 120 staff, has about 23,000 customers and plans to double this by the year-end. It aims for 250,000 customers by 2000 and then be in profit. Mr Weber says only 15 per cent of Comdirect's customers come from Commerzbank. Many come from small savings banks.

Banking behaviour



Source: Bain

"It was an advantage to be the first," he says. But the start-up of Bank 24 and others, while opening up the market, will make it harder and costlier to attract new business.

German banks estimate the potential market for direct banking is about 6m people, based on the experience in the US and UK. Younger people, less wedded to traditional-style banking and more in tune with technology, are a particular target. "One of the banks' aims is to use electronic banking to try to get younger, more up-market customers," says Mr John Leonard, banking analyst at Salomon Brothers. About 20 per cent of German households have PCs.

At Dresdner Bank, which does not have a direct bank but has not ruled one out, customers can choose which mix of in-house investment services they wish to use remotely, by telephone or via PC. They can dispense with advice and save half or more of the transaction costs.

"The intention is to improve customer service while freeing branches from routine activity, allowing more focus on advisory services," Mr Leonard says.

This is the aim of all big banks in a country where branch density is nearly twice as high as in the US or Japan.

"We have to use technology to meet the needs of younger customers who are familiar with computers, as well as continuing to provide good advice to clients who want personal contact," says Mr Platzek.

Thus, while new forms of banking will absorb much of the banks' attention, other forms of service will not disappear. "It woulld be a strategic mistake to try to force traditional customers to use new technology," he says. But as the activities of German banks show, the pace of electronic, home, remote or virtual banking – call it what you will – is hotting up.

Andrew Fisher

Bank staff comments 'point to client exploitation'

Fresh evidence stirs P&G row with Bankers Trust

By Richard Waters in New York

The increasingly bitter case between Bankers Trust and Procter & Gamble over two failed derivatives trades has taken an extra twist with the unsealing of a huge mountain of evidence which had been filed by both sides in the federal court.

Foremost among the evidence listed by P&G are comments made by Bankers Trust employees which, it claims, point to an "atmosphere and corporate mentality" which has led the bank to exploit several customers.

Prominent among these are comments by Mr Kevin Hudson, a managing director of BT Securities and the executive most closely involved in the two disputed trades with the consumer products giant. Many of the comments were made to Ms Alison Bernhard, another BT trader.

The two, who were engaged at the time and have since married, talked over the telephone, enabling their comments to be recorded.

This was in spite of the fact that they sat only several feet apart on the bank's New York trading floor.

At one point, talking about one of the leveraged derivative trades conducted by P&G, Ms Bernhard asks: "Do they understand that? ... What they did?" Hudson: "No." Bernhard: "They didn't?" Hudson: "No. They understand what they did but they don't understand the leverage, no."

At another, Ms Bernhard suggested that the company "would never be able to know how much money was taken out of that". Mr Hudson replied: "Never, no way, no way. That's the beauty of Bankers Trust."

At one point a bank executive is quoted as saying that "what a bank can do [for its clients] is get in the middle and rip them off," while another says: "Funny business, you know? Lure people into that calm and then just totally fuck them."

One bank official described comments by Mr Hudson and other derivatives salespeople as "crass, embarrassing and stupid". The bank added that it did not "condone any disrespectful or inappropriate attitude toward clients," but that this did not detract from its claim that P&G was not misled about the contracts it bought.

> 'What a bank can do [for its clients] is get in the middle and rip them off'
>
> Bankers Trust executive, according to evidence filed in the federal court

It is not only Bankers Trust whose senior executives are put on trial by the mountain of evidence released on Tuesday. Procter & Gamble was also thrown onto the defensive by evidence which appeared to contradict its claims that it was kept in the dark about the risks involved in the trades.

In the transcript of one telephone conversation between the Bankers Trust and Mr Dane Parker, a P&G employee, the bank's salesman outlines the nature of an interest swap P&G is proposing to buy. Mr Parker replies: "All right, I can do that too. [Pause] Yeah, other than that, I like this, I like the bet."

The evidence marshalled by Bankers Trust also suggests that P&G has allocated blame internally for its losses. Among evidence released were handwritten notes from Mr Edwin Artzt, formerly P&G chairman and chief executive, criticising Mr Erik Nelson, chief financial officer, and Mr Raymond Mains, former treasurer, for their part in the affair.

Of Mr Mains, Mr Artzt notes: "Didn't penetrate – didn't ask the right questions. Simply went to sleep." Mr Mains took early retirement last year, a course of action suggested by the company, Mr Artzt says.

Mr Nelson, who remains P&G chief financial officer, "made several basic mistakes". Among these, he "failed to tell me until April 1 when it was all over," according to Mr Artzt's note.

His punishment was to be censured in front of the board, and to forego his bonus, the documents reveal.

P&G said the evidence was being used as a "smokescreen" by Bankers Trust to obscure its own responsibility.

"If we thought that P&G employees were to blame, we would not have filed the lawsuit against Bankers Trust," P&G said.

Complaint says Sandoz lost $78.5m in deals

By Ian Rodger in Zurich

Sandoz, the Swiss pharmaceuticals and nutrition group, apparently lost $78.5m in sophisticated derivatives transactions arranged two years ago by Bankers Trust, the US investment bank.

The information emerged in an amended complaint submitted to a US court by Procter & Gamble, the US household products group, for losses of almost $200m it suffered in transactions with Bankers Trust.

Sandoz confirmed yesterday it had had a "business dispute" with Bankers Trust. It said the dispute "has now been settled", but the terms and conditions of the settlement were confidential.

According to P&G's complaint, Bankers Trust "misrepresented or omitted material information in their dealings with Sandoz during the course of Sandoz's transactions in complex leveraged derivatives".

In particular, from the beginning of 1994, bank officials provided Sandoz with values that "significantly understated" the magnitude of the company's loss position in a constant maturity swap deal, the complaint said.

It alleged that on February 22 1994, a Bankers Trust official discovered that the bank's hedge of the swap had been misbooked, and that the bank did not have the protection that he thought it had.

The official then allegedly encouraged Sandoz to reduce the notional amount of the swap. On the bank's advice, Sandoz amended the swap nine times from February 23 until May 6, apparently believing it was in a partnership with the bank. It was not told that the bank was taking significant fees for each of these changes.

"As of May 9 1994, Sandoz had spent over $25m in an effort to manage the CMT swap... On May 9 1994, Sandoz decided to terminate the CMT swap and agreed to pay defendants an additional $38.4m to do so," the complaint said.

Smurfit 'knew nothing of losses'

By Alison Maitland

Jefferson Smurfit Corporation, the US arm of the Irish paper and packaging group, said yesterday it knew nothing about the losses of $2.4m which P&G claimed it had suffered on derivatives trades with Bankers Trust. "We're dealing with something P&G believes to have affected us. That's new to us," said the company, which is based in St Louis, Missouri.

"We're in an awkward position of being part of a lawsuit we did not bring."

He said the company was studying the P&G documents and re-evaluating its position. He confirmed that it had bought derivatives contracts through Bankers Trust.

Jefferson Smurfit Corporation is 46.5 per cent owned by Dublin-based Jefferson Smurfit Group.

Chile pipeline battle intensifies

By David Pilling in Buenos Aires

The battle between two consortia to build a gas pipeline between Argentina and Chile heated up yesterday. Both projects claimed they would go ahead, in spite of industry fears that Chile's energy market was not large enough to sustain two pipelines.

"We will build our pipeline," said Mr Ewell Muse, president of TransGas, a consortium led by Tenneco of the US and British Gas. "If they build theirs, there will be two pipelines. What they do is their business."

"Our expectation is that only one pipeline is going to be built, and we've already started," said Mr Edgar Buzzalino, marketing director at Nova Corp, which is leading the rival project.

Nova had signed construction contracts and pipeline was already being manufactured, he said.

TransGas, whose 800km pipeline is expected to cost $680m, intends to start construction next May.

The rival GasAndes project, which follows a more direct route to Santiago by crossing the Andes mountain range at a higher altitude, must begin construction this November to meet its planned 1997 start-up date. Nova expects its project to cost $285m.

Mr Muse said that if a price war resulted from oversupply, "our clients are in a better condition to weather the storm because they have no other generating capacity in Chile".

TransGas has signed supply contracts with US generators Southern, Entergy and InterGen, which have agreed to build power stations with a combined capacity of 1,400MW, representing 45 per cent of TransGas's projected supply.

Nova rejected suggestions that its main clients, Chile's largest generators Chilgener and Endesa, would suffer more in a price war.

"How can they (TransGas) weather any storm if their capital costs are more than double ours," said Mr Buzzalino. "It doesn't make any sense."

Mr Muse said TransGas had also signed letters of understanding with 190 industries in central Chile, representing between a further 45 per cent and 50 per cent of gas supply. TransGas would spend $80m on converting these industries to gas.

"We are very confident that they will convert since we are paying for it," he said, adding that letters of intent would be converted into contracts within five months.

Mr Muse said TransGas had hired Chemical Bank to organise financing, of which 70 per cent would be debt, in time to begin drawing down funds next May.

New chief brings YPF into shape

The next challenge is the group's debt-ridden Maxus unit, writes **David Pilling**

Mr Nells León believes he has lived in the shadows too long. President of YPF, Latin America's largest private oil group, he is keen to underline his role in transforming the Argentine company from a "fat man weighing 500 kilos... into an athlete able to run the 100 metres in nine seconds flat."

That transformation, which saw the company move into profits as it cut staff from a bloated 50,000 to below 6,000, is generally associated with the late Mr José Estenssoro, the YPF president who died in an air crash last May.

However, Mr León, whose subsequent promotion from the number two slot raised some eyebrows, is adamant the new-look YPF is as much his creation as that of his predecessor.

"We worked shoulder to shoulder for eight years... he and I laboured as one. And together we achieved this transformation, this restructuring and this privatisation," says Mr León.

He says the two men changed the culture of a state-owned company that had "gardeners and bakers on its payroll" into a "business able to compete with the Shells of this world".

"It had long been my dream," says Mr León, often regarded as a technician rather than a visionary, "to bring this transformation about. YPF was a sacred animal. We had to rid it of this concept of sovereignty and turn it into a commercial business."

However, Mr Léon now faces the challenge of persuading sometimes sceptical institutional investors that he is the man to carry that process forward.

In particular, he must convince them he knows what to do with Maxus, the debt-laden US-based oil and gas company acquired by YPF for almost $800m earlier this year.

In July, he appointed Mr Roberto Monti, an Argentine, as Maxus chief executive, with orders to cut costs and raise efficiency.

"Maxus has lots of talent, but needs better management," says Mr León, who regards the company as "a short cut" to YPF's international ambitions. Without Maxus, "we realised this would take 10-15 years".

The aim will be to maximise profits from Maxus' stakes in Venezuela, Bolivia and Ecuador. Mr León believes Maxus' Venezuelan interests in the Quiriquiri oil deposit have "great potential".

As well as "re-activating" existing wells, YPF will undertake new exploration in Venezuela where a relatively marginal deposit can be as rich as a core field in Argentina.

Stakes in Indonesia, where Maxus has big deposits in Sumatra and Java, as well as gas interests in the US, could be sold, says Mr León, depending on the outcome of a five-year strategic plan being drawn up.

In Argentina, Maxus technology will be used to explore "frontier areas" which had stretched YPF's technical capacity.

Nells Léon: Maxus 'needs better management'

"There are 24 sedimentary basins in Argentina, only five of which are in production. The knowhow that Maxus has acquired internationally can help us to incorporate the other 19," he says.

Maxus technology could also be employed in disputed waters around the Falkland islands, where YPF is almost certain to explore following the recent signing of an oil co-operation agreement between the UK and Argentina.

YPF may bid for South Atlantic blocks in conjunction with British Gas with which it has signed a letter of understanding. The Argentine group has already drilled in the San Julián basin bordering on Falkland waters.

The well was dry, but Mr León says it provided valuable data. "We know there is a sedimentary basin (around the islands) and that there are sediments. What we don't know is if there is accumulation. To find that out, we must drill."

If competition around the Falklands intensifies Mr León has shown he is prepared to play tough. He has sought a court injunction against a consortium, led by Canada's Nova Corp, which is aiming to build a rival gas pipeline from Argentina to Santiago in Chile.

YPF, which is part of a pipeline consortium with British Gas and Tenneco of the US, claims Nova's project does not have the necessary legal authorisation to begin construction in November as planned.

However, Mr Edgar Buzzalino, marketing director at Nova, says: "We believe YPF's claim doesn't have any merit. It's not going to work."

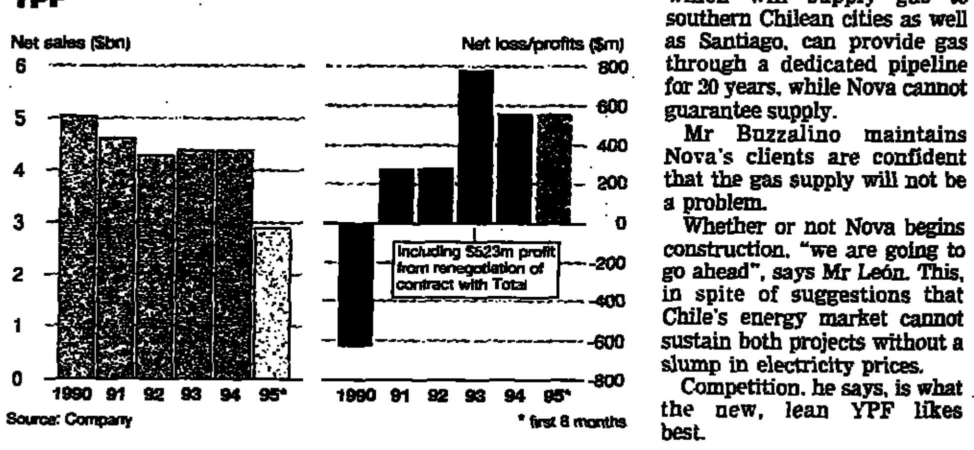
Mr León says YPF's project, which will supply gas to southern Chilean cities as well as Santiago, can provide gas through a dedicated pipeline for 20 years, while Nova cannot guarantee supply.

Mr Buzzalino maintains Nova's clients are confident that the gas supply will not be a problem.

Whether or not Nova begins construction, "we are going to go ahead", says Mr León. This, in spite of suggestions that Chile's energy market cannot sustain both projects without a slump in electricity prices.

Competition, he says, is what the new, lean YPF likes best.

YPF



Source: Company
* first 8 months

Kimberly defends plans for merger

By Roderick Oram, Consumer Industries Editor

Kimberly-Clark said yesterday it would still face stiff competition from small independent makers of bathroom and kitchen tissues if the European Commission allowed its proposed merger with Scott Paper.

Its own brands such as Kleenex and Andrex would also meet increasing competition from supermarket own-label products. Thus, the merged company's brands "cannot be said to hold a dominant position", Kimberly said. The EC is investigating the proposed merger because of the large market shares the two US companies have in some European countries, particularly the UK.

Kimberly's comments accompanied the first publication of its market share figures. On all counts they were much lower than those presented last month by one of its rivals opposed to the merger.

"We're mystified," said Mr Alan Goda, a senior Kimberly executive. "We just can't conceive of numbers of that size."

Both sets of figures used data from Nielsen, the market researchers, for shares of the branded markets. However, Kimberly and its rival made their own estimates of Kimberly/Scott's share of the large own-label market.

Kimberly estimates the combined company would have 18.2 per cent of total western European tissue manufacturing capacity and a branded market share of about 22 per cent in Germany, France and the UK against own-labels' 42 per cent.

In the UK, its share of branded toilet paper would be 35 per cent, of kitchen towels 12 per cent and facial tissues 34 per cent.

INTERNATIONAL COMPANIES AND FINANCE

Nomura plays lottery card to woo investors

By Gerard Baker in Tokyo

Japan's hard-pressed stockbrokers, beset by continued weakness in the country's equity market, are appealing to the Japanese obsession with gambling in an effort to revive business.

Nomura Securities, the country's largest broker, said yesterday it planned to launch a lottery tied to investment accounts, with the lure of monthly individual prizes of up to Y50,000 ($493).

A company spokesman said the scheme was expected to raise individual interest in equity investment, which has waned dramatically in the past five years. Other brokers said they were considering plans for the introduction of similar accounts.

The scheme will be applied to investments in Nomura's "ruito" accounts, where customers save a fixed sum per month for investment in the equity market.

Customers who maintain regular deposits for an as yet undisclosed period will be entered automatically in the monthly prize draw with the possibility of winning either cash or gift certificates. No date has been set for the launch of the lottery but the company hopes to have it in place by the end of the year.

Lotteries tied to bank or brokerage accounts have traditionally been frowned upon by Japan's conservative financial community. The authorities have been concerned that attempts to lure customers with special offers might lead some of the more reckless institutions to offer more than they could afford. But in the past year the pace of financial deregulation has begun to open up the market to increasingly ingenious products.

Last autumn the introduction of lottery deposit accounts by a small Tokyo-based bank caused uproar among competitors, who promptly tried to have it squashed by the regulators. But it proved so popular that the authorities were forced to permit the bank to continue the account.

The product was copied by other small banks and now seems set to spread to stockbrokers. Later this month the Japan Securities Dealers' Association will approve the operation of such schemes by its members.

But brokers seem likely to face a harder time than banks in selling the products to their customers because of the large capital risk associated with buying stocks.

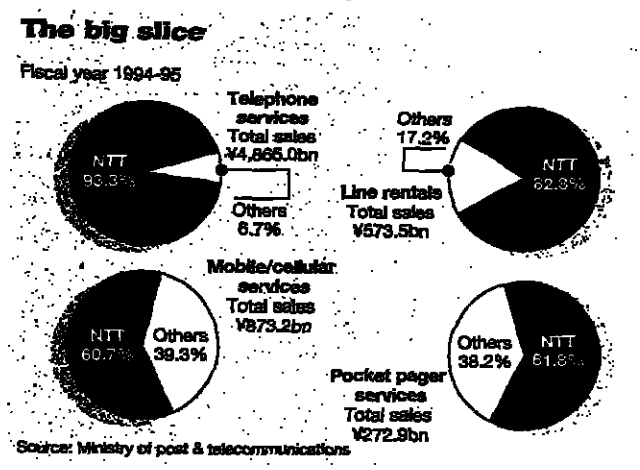
Punters in the Japanese equity market have been on an extended losing streak. Stock prices peaked in December 1989, and have since fallen more than 50 per cent. Hardest-hit have been millions of individual investors, many of whom have lost a large proportion of their life savings.

As a result trading by individual investors has collapsed. Last year total trading volume was little more than a third of its level in the late 1980s. This year there has been a slight recovery in investor interest but not one likely to benefit brokers significantly.

Industry observers doubted Nomura's move would have more than a marginal impact on activity. "Individuals' trading volumes have been so low in the past few years that they have become the least profitable part of brokers' business," said Ms Elizabeth Daniels, financial sector analyst at Morgan Stanley in Tokyo. "This is an attempt to raise volumes and get profitability up a bit. But frankly I'm not holding my breath."

When breaking up is hard to do

NTT has gone on the offensive to counter growing calls for it to be split up



Source: Ministry of post & telecommunications


Masahi Kojima: NTT president

The past few months have seen a flurry of activity at NTT, Japan's usually slow-moving telecommunications group.

The activity portrays a company that has decided to go on the offensive in the face of the threat of being broken up when the government concludes a review of Japan's telecommunications industry next spring.

Yesterday, NTT revealed it had formed a partnership with Cable and Wireless, the UK telecommunications company, Hong Kong Telecom, a C&W subsidiary, and Itochu, the Japanese trading company, to set up a company that would market NTT's personal handyphone systems in Asia.

On Monday, NTT said it had formed an alliance with Novell, the US company, AT&T, the US telecommunications operator, Deutsche Telekom and others to promote network security and standardisation of operations and to provide network services for business communications.

Sandwiched between the two came the disclosure that NTT was keen to enter the international telecommunications market, an area that it is prohibited from joining under Japanese law.

This year, the domestic carrier announced it would invest in a mobile and international communications company in the Philippines and participate in the construction of a telephone network in Hanoi, Vietnam.

Calls to split up the company, which has a virtual monopoly of the local telecoms market in Japan, have been growing louder by the day, as the debate, by an influential advisory committee to the telecoms authorities, gathers pace.

On Tuesday, the committee compiled a report in which it recommended breaking up NTT to increase competition in the market and ensure low-cost and convenient services for consumers.

In its current form, NTT is the largest telecommunications carrier in the world, with operating revenues for the last fiscal year of $79.1bn. AT&T, which recently decided to spin off its telephone equipment manufacturing and computing businesses, made sales of $49bn from its telephone services business.

NTT has a 98 per cent share of Japan's local telecommunications network and about 70 per cent of the long-distance network where it has competed with three new entrants since 1986, according to Mr Eric Gan, industry analyst at Goldman Sachs, the US securities company.

The problems which arise from its size and dominance in the domestic market have been a powerful argument for breaking up NTT. The ministry of posts and telecommunications contends that greater competition is needed to ensure the Japanese public derives the full benefits of the coming information society.

NTT's competitors in the long-distance market, which was deregulated in 1985, complain that NTT abuses its control over the local network by refusing to provide them with timely and reasonably priced access to the local network.

The Japanese media has been awash with reports of public frustration over NTT's bureaucratic operations, its high prices and slowness in introducing services.

Meanwhile, the investment community has started to look at divestiture in a positive light. The adverse impact on NTT's share price was a strong argument against a break-up in an NTT review conducted five years ago.

However, market analysts this time support a break-up on the grounds that it would increase NTT's market value.

Mr Makio Inui, industry analyst at Kleinwort Benson in Tokyo, believes breaking up NTT would raise the market value of the separate companies by at least 35 per cent over NTT's current market value of Y11,856bn ($117bn).

A spreading consensus that the benefits of a break-up far outweigh the disadvantages has been building up amid a lack of strong opposition from key parties, apart from NTT and the company's labour union.

While Mr Ryutaro Hashimoto, the minister for international trade and industry and a leading contender to become Japan's next prime minister, has cautioned against a quick decision to split up NTT, and opposition politicians have been sympathetic to NTT's cause, the political establishment has not yet turned its attention fully to the issue.

The finance ministry, which owns some 65 per cent of NTT, says publicly that it has no say on the break-up *per se* but is only concerned that shareholder protection is properly accounted for.

With more voices heard in favour of, than against, a break-up, Mr Masashi Kojima, NTT president, has spent a good deal of time arguing the case for keeping the company intact.

The blurring of borders between the telecommunications and other industries meant competition to NTT would not be restricted to companies in the industry but would increasingly come from other industries as well, Mr Kojima emphasised.

"The technological advances of recent years are changing the ground rules for competition. This is a frightening change," he said.

Mr Kojima has been taking action that could help counter arguments for a break-up. Last week, he made a surprise declaration that NTT would open up its local loop to any competitor at any point along the network.

The offer was intended to deflect the argument that poor access to NTT's local network was hampering the development of new services by its competitors in the long-distance market.

There have been indications that NTT is considering spinning off some of its businesses in a response to criticism that it is too big and inefficient.

Judging from the rising momentum in favour of a break-up, unless it can muster wider political and public support, NTT faces a difficult test of its new offensive over the next six months.

Michiyo Nakamoto

BHP plans to divest American oil assets

By Bruce Jacques in Sydney

BHP, the Australian resources group, plans to divest the bulk of its widely spread petroleum production assets in North and South America.

The company said yesterday it would sell 395 properties with combined net production to BHP of about 4,000 barrels a day of oil and 125m cu ft a day of gas. It gave no financial details.

The properties are in Texas, New Mexico, Wyoming, Louisiana, Canada and Argentina. BHP said the sale included all assets which were not core to the company's future growth strategy.

"The core assets to be retained include exploration and producing properties in the Gulf of Mexico and in Bolivia," it said. "The company also intends to pursue other exploration acreage and prospects in certain other Latin American countries and North America." The divestment process is expected to take several months.

● Foodland Associated, the Australian grocery group, has returned to the black in the year to July, turning a A$10.1m loss into a A$52.6m (US$40.5m) profit. Sales rose from A$3.35bn, to A$5.58bn, and the annual dividend is up from 12 cents to 30 cents a share.

JAL chief bullish on profits

Japan Airlines' parent current profits for the year March may exceed the company's earlier forecast of Y3bn ($29.6m) against the previous year's Y2.82bn, the carrier's president, Mr Akira Kondo, said yesterday, Reuter reports from Tokyo.

The main reason for this optimism was larger-than-expected revenue in the six months to September 30, mainly in JAL's international passenger business.

Mr Kondo also said JAL would be asking the US department of transportation to reject United Airlines' complaint about JAL's Japan-Honolulu service.

United has asked for the route licence to be renewed for only 120 days or until US-Japanese talks on air cargo are concluded.

United Airlines made the complaint to the government after Tokyo's refusal to allow it to extend its flight from the US to Japan's Kansai International Airport to Seoul.

On the subject of Japanese domestic flights, Mr Kondo said he wanted complete deregulation to enhance competition. He also said that Japan would eventually need a third airport for Tokyo, in addition to existing airports at Haneda and Narita.

Reebok opens first five shops in India

Reebok International's Indian unit has launched operations in Bombay and New Delhi with the opening of five shops and has said the country could increasingly supply its sports shoes for overseas markets, Reuter reports from New Delhi.

Reebok India, which is 80 per cent owned by Reebok International with the rest held by India's Phoenix Overseas, said it had opened three retail outlets in Delhi and two in Bombay.

The joint venture said it initially expected to invest $5m in India and to set up about 55 showrooms for Reebok sportswear in India by 1997.

Jakarta bourse seeks return to roots

Indonesia's exchange has a high-tech trading system but low domestic investment, writes Manuela Saragosa

The head of Jakarta's capital markets supervisory board likens Indonesia's fledgling stock market to a car engine with one cylinder.

Perhaps a less scathing analogy would see the stock market as a very sophisticated aircraft waiting for passengers to board before it can take off.

An updated capital markets bill, an automated trading system which can handle up to 50,000 transactions daily compared with the 3,800 manually-entered transactions previously, a new trading floor in swish twin towers in the heart of Jakarta's central business district, and next year the introduction of scripless and remote trading, have all ensured that the Jakarta stock exchange is equipped with state-of-the-art technology.

There is only one hitch: potential domestic investors have shown little interest. At a conference on the development of Indonesia's capital markets in Jakarta this week, speakers stressed the need to develop a domestic investor base in a market where two-thirds of all trading was foreign-driven.

The latest developments have already provided a significant boost to Indonesia's notoriously illiquid market. Since automated trading started, the number of shares traded daily has increased to 42m from 32m. The average value of daily trading was Rp 123bn ($34.3m) in the first nine months of this year, up 18 per cent on last year, and is expected to reach Rp 200bn by the year-end.

However, with ambitions to be south-east Asia's biggest stock market and play a crucial role in financing Indonesia's development, further measures are needed.

"In the long run we cannot rely solely on the needs of international institutional investors," says Mr Bacelius Ruru, head of the capital markets supervisory board, known as Bapepam. "Liquidity can only be achieved by having a large domestic investor base."

This week, Indonesia's parliament passed a new capital markets bill which comes into force on January 1 1996 and allows open-ended funds to operate in Indonesia for the first time. The expectation is that this will spur the development of money market and mutual funds; previously there were only closed-ended funds.

Analysts agree that the scope for domestic investment in equities is huge and that the new law clears the way for more. According to Mr Ruru, less than 1 per cent of investors who have savings accounts currently invest in stocks.

Meanwhile, between 1989 and 1995 account balances grew from $12bn to $32bn and are set to rise rapidly as average incomes improve.

But Indonesia's notoriously high interest rates, currently between 11 per cent and 15 per cent, make it difficult to attract domestic funds. In 1993, for example, only 7 per cent of the total investments made by Indonesian institutions and pension funds were in equities with the majority – more than 36 per cent – going into time deposits of between six months and 18 months.

Interest rates are set to remain high, reflecting a 10 per cent inflation rate and the premium needed to guard against political risk, which prompts the richest individuals to keep a high proportion of their assets offshore.

Nevertheless, the development of open-ended funds will make it easier for domestic private clients and institutional investors to move funds into equities and diversify their risk. "To make long-term return requirements, you need to have a mixture of investments and one of those is typically going to be equity," says Mr Michael Chambers, president director of GK Goh Ometraco Securities in Jakarta.

The immediate challenge for the stock exchange is to change the Indonesian public's attitude to stock market investments. "[For us] the toughest by far is the educational process," explains Ms Felia Salim, a director at the Jakarta Stock Exchange. "There is only one kind of learning curve and we're at the bottom of it."

Seminars about investing in equities are being held throughout the country. Meanwhile, the initial public offering of Telkom, the domestic carrier which will raise between $2bn and $3bn when it is listed in New York, London and Indonesia later this year, will offer either a bonus share or a discount for domestic investors.

The hope is also that the new capital markets bill, which gives Bapepam new enforcement powers to crack down on unethical trading, will increase market transparency, making it a more attractive vehicle for Indonesian investors.

The bill makes Bapepam more than just an administrator, allowing it to subpoena people and investigate allegations of share manipulation. It also tightens standards over disclosure and makes penalties for those found violating regulations more severe.

"The new law gives Bapepam significant powers," says one foreign research analyst. "But Bapepam has to develop its skills.

"Credibility of the market in the eyes of investors is only obtained by ensuring that disclosures made are accurate."

Analysts say that the stock exchange's record in its new developments so far is enough to boost confidence about its future.

There are teething pains – the real-time composite index, for example, is still not adjusted to reflect rights issues and issues of bonus shares – but these should be temporary.

Whether the stock market develops the way officials hope will depend on whether they manage to get the interest of domestic pension funds and institutions.

"Judging from the history of other markets, those entrepreneurs who open the retail market are most likely to be the leaders 10 or 15 years from now," says Mr Mar'ie Muhammad, the finance minister.

"It is in Malang and Medan, Surabaya and Jakarta, Denpasar and Bandung that the future of our capital market lies."

COMPANY NEWS: UK

Lucas expects lifting of ban on US defence work

By Bernard Gray, Defence Correspondent

Lucas Industries, the aerospace and automotive company which has just agreed to pay $88m in damages to the US Department of Defence over contract breaches, expects to have a bar preventing it from bidding for further DoD work lifted in the next few weeks.

The bar will remain on the company's Western Gear subsidiary, the source of the recent trouble, until production problems are resolved, but all other Lucas companies should be free to compete for Pentagon contracts.

However, Lucas is unlikely to chase substantial new work after its bruising experience. Rather, the Western Gear subsidiary is likely to be sold if a buyer can be found. That may come as part of a wider re-orientation of the company to focus on its automotive and aeroengine controls activities.

A re-orientation has been expected since Mr George Simpson, the company's chief executive, arrived from British Aerospace 18 months ago. However, substantial management time has had to be spent resolving the Western Gear problems, which have cost the company about £170m in total.

Mr John Grant, Lucas's finance director, accepts that the company's management was to blame for its problems in the US. "It may well be that there was a poor management culture [at Western Gear] when we bought the company, but we have to acknowledge that we did not do anything about it."

Western Gear based in Utah was bought by Lucas for £52m in 1987, and is the sole supplier of gearboxes for the US Navy's F/A-18 fighters. The company ran into trouble because it falsified test results on the gearboxes before supplying them to the Navy.

The huge losses come as the DoD campaign to crack down on poor quality suppliers has gathered pace. Civil claims and criminal fines have mounted steadily, with the Lucas $88m settlement being the largest to date, narrowly beating the $85m paid by Teledyne, the US electronics company, last year.

One other supplier to the Pentagon said: "The only way to be safe is to stick to the specification and treat your staff well. Disgruntled employees can quickly become well-paid whistle-blowers in the US."

LEX COMMENT

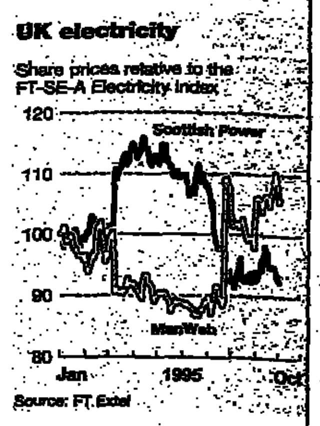
Manweb

Friday is the last day for Manweb investors to decide whether to accept Scottish Power's 990p a share hostile offer. With Scottish Power now controlling 26 per cent of Manweb's stock, many have already made up their minds. The rest should follow suit. Manweb's defence package, which promises 550p in special dividends and preference shares while leaving a highly-geared rump business, has not convinced investors. The Achilles heel has been the dismal performance of Northern Electric shares since that company pioneered the "scorched earth" defence. Putting the Manweb rump on the same yield as that of Northern, leaves the value of Manweb's package still roughly 100p behind Scottish Power's offer.

Manweb may be right that Northern's rump is undervalued. But if investors believe this, they should take Scottish Power's cash and plough it back into Northern shares. The fact that Scottish Power is not paying a big premium over the value Manweb can generate through its defence package is also irrelevant.

UK electricity

Share prices relative to the FT-SE-A Electricity Index



Source: FT Extel

The important point is that nobody else is willing to pay more.

The main decision for shareholders is now whether to accept 990p cash or the cash and share offer of £10.02. For those who wish to hold Scottish Power shares, the cash and share offer is the obvious choice. But anybody contemplating selling the shares in the market would do better to take the cash. The 12p premium could easily be wiped out if other investors also decided to dump their Scottish Power shares.

£23m buy for Arjo Wiggins in S Africa

By David Blackwell

Arjo Wiggins Appleton, the Anglo-French paper group, yesterday added South Africa to its expanding paper distribution business with the £23m cash purchase of Graphtec, the leading South African merchant of printing and writing papers.

Graphtec, which also operates in Botswana, Zimbabwe and Mauritius, had sales of £123m in the year to the end of August.

Mr Cob Stenham, Arjo chairman, said the deal – the fifth this year – would bring the total spent on paper merchants to £200m. The acquisitions had been highly opportunistic, and would lift gearing to 50 per cent at the year end.

However, strong growth in paper merchanting, coupled with the acquisitions, would push group turnover in the sector up by about £0.6bn to about £1.8bn this year.

Mr Stenham was confident of annual compound growth of at least 10 per cent in the Southern African market. Per capita consumption in South Africa itself was about one-seventh of the level in France, and there was "a great deal to go for."

In August the group cemented its position as continental Europe's largest paper distributor with the acquisition of Muhlebach, the Swiss paper merchant, for £116m. It is still hoping to close the gaps in its European coverage in the Netherlands and Germany.

Netto expands into SE England

By Neil Buckley

Netto, the Danish-owned discount grocery chain, has bought the UK operations of Erteco, which runs the Ed chain of discount stores, taking it into south-east England for the first time.

The acquisition marks further consolidation in the discount sector, after the acquisition last November by Kwik Save, Britain's biggest discount grocer, of the British operations of Shoprite, the Isle of Man-based discounter. It leaves Kwik Save, Netto, and Germany's Aldi and Lidl chains as the main discount food chains in the UK.

Mr Henrick Gundelach, Netto's managing director, said his company had bought for an undisclosed sum 13 Ed stores in south-east England, and would keep all the store staff and some at head office.

"This is the launch pad for us into the south-east," Mr Gundelach said. "We already have several other stores in the pipeline."

Erteco, a subsidiary of Carrefour, France's largest retailer, said the sale was "motivated by the difficulties in achieving critical mass in this market". The company recently closed five under-performing Ed stores. Since the first stores opened in 1992, analysts have been surprised by its slow development.

The withdrawal from discounting is the second time Carrefour has withdrawn from the UK, after trying unsuccessfully to launch its hypermarket format in the 1980s.

Grampian goes for higher margins

By Jane Martinson

Improved margins helped Grampian Holdings, the diversified industrial group, lift interim pre-tax profits 19 per cent from £3.59m to £4.29m.

Mr Bill Hughes, chairman and chief executive, said the group had concentrated its energies on chasing higher margin products. Pre-tax margins improved to 6.1 per cent, up from 5.5 per cent.

The transport division saw particularly strong growth with sales up 16 per cent to £21.9m while pre-tax profits jumped 42 per cent to £2.2m. Warehouses and distribution – the focus of the capital investment programme – performed well.

Tipper trucks, the other part of the transport division, saw an increase in higher margin landfill and environmentally popular work compared with traditional construction orders.

Sporting goods turned a loss of £183,000 into a £23,000 profit on turnover down 7 per cent reflecting a change in the fee basis.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Austin Reed	28 wks to Aug 12	36.3	(34.5)	1.38	(1.84)	3	(3.9)	2	Dec 1	2	-	6
Bank of Scotland	6 mths to Aug 31	-	(-)	261.6♠	(213.2♠)	12.6	(10.9)	2.45	Dec 15	2.13	-	5.82
Blenheim	6 mths to June 30	92.1	(99.7)	13.1♠	(19.2)	6.4	(11.3)	3.5	Jan 5	3.5	-	10.35
Burn Stewart	Yr to July 2	50.4	(40.7)	3.97	(4.19)	4.65	(5.2)	3.3	Nov 29	3.3	5	5
Global §	6 mths to June 30	54	(41)	0.842	(0.715)	0.42†	(0.38)	0.2	Nov 30	0.2	-	0.525
Grampian Holdings	6 mths to June 30	70.8	(65.8)	4.29	(3.59)	4.34	(3.68)	1.8	Nov 14	1.7	-	5.75
Hewden Stuart	6 mths to July 31	141.8	(128)	19.7	(16.2)	5	(4.12)	0.75	Dec 14	0.688*	-	2.77*
Hunting	6 mths to June 30	565.8	(559.1)	15	(13.5)	5.9	(4.6)	4	Dec 15	4	-	10
Jenners Princes St	6 mths to July 31	17.4	(16.8)	0.817	(0.734)	-	(-)	37	Nov 17	34	-	71.5
Neill Clerk	6 mths to Sep 30	1.35	(1.61)	0.307	(0.12)	59	(24)	4	Oct 24	-	-	-
REA	6 mths to June 30	48.8	(43)	0.858	(0.592)	3.7	(3.5)	-	-	-	-	4
United Industries	6 mths to June 30	32.6	(23.6)	1.75	(0.563)	0.63†	(0.36)	0.15	Nov 22	0.1	-	0.32
Usborne	Yr to June 30	183.6	(218)	0.622L	(13.2L)	1.78L†	(70.14L)	nil	-	nil	nil	nil

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Intl Jersey	6 mths to June 30	-	(-)	0.199	(0.478)	8.3	(8)	8.3■	Oct 13	8.3■	-	17.8
Nth Atlantic Small	6 mths to July 31	-	(-)	0.179L	(0.25L)	2.02L	(3.17L)	-	-	-	-	-

Dividends shown net. Earnings shown basic. Figures in brackets are for corresponding period. †On increased capital. *Adjusted for scrip issue. ♠After exceptional charge. ■Includes 4.8p not subject to tax charge. §USM stock.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 05.10.95: Pool purchase price £/MWh	Final Prices for Trading on 07.09.95: Pool purchase price £/MWh	Pool selling price £/MWh
0030	8.93	9.12	10.55
0100	8.92	8.97	8.97
0130	8.92	9.12	10.56
0200	8.93	9.12	10.55
0230	8.93	9.12	10.55
0300	8.92	9.12	10.55
0330	8.92	9.12	10.55
0400	8.92	9.12	10.55
0430	8.93	9.12	10.55
0500	8.94	9.12	10.55
0530	8.92	8.97	8.97
0600	8.92	8.96	8.98
0630	9.00	8.97	8.97
0700	15.75	16.27	17.70
0730	16.00	16.18	17.82
0800	17.41	16.77	18.25
0830	28.83	17.75	19.32
0900	28.87	18.58	20.36
0930	28.88	32.78	34.85
1000	28.87	33.83	35.93
1030	28.89	34.21	36.69
1100	17.55	23.20	25.77
1130	17.65	24.07	26.86
1200	28.88	36.37	38.21
1230	28.88	43.20	45.83
1300	25.54	33.49	35.74
1330	17.48	20.66	22.54
1400	17.41	18.29	20.02
1430	16.05	17.29	18.94
1500	16.04	17.14	18.74
1530	16.04	17.08	18.66
1600	16.05	17.47	19.18
1630	16.09	24.23	26.19
1700	28.87	31.38	33.59
1730	40.55	31.14	33.27
1800	28.61	30.25	32.14
1830	21.50	17.04	18.61
1900	27.50	16.50	17.98
1930	32.96	16.48	17.95
2000	32.88	16.66	18.19
2030	21.54	29.86	31.42
2100	20.62	29.86	31.43
2130	16.00	29.68	31.17
2200	15.99	16.44	17.89
2230	15.72	16.28	17.71
2300	12.75	16.27	17.70
2330	9.00	16.27	17.70
2400	9.02	12.86	14.31

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.88/MWh becomes 1.688p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the base of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0113 945 8788 between 8:30am and 5:15pm Monday to Friday.
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CONTRACTS & TENDERS

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COMPANY NEWS: UK

Rising costs squeeze Bank of Scotland

By John Gapper, Banking Editor

Bank of Scotland disappointed the City yesterday by disclosing almost flat interim operating profits before provisions for bad and doubtful debts, with costs rising and income coming under pressure from a squeeze in margins. Pre-tax profits rose 23 per cent from £213.2m to £261.6m ($405m) in the six months to August 31. Most of the rise came from a fall in provisions from £118.6m to £85.8m, and a £23.6m gain from the sale of 50 per cent of a credit card venture.

The shares closed 7p down at 240p as analysts said they were concerned at a lack of underlying growth. "They are having to run very fast to stand still," said Mr Richard Coleman at Smith New Court.

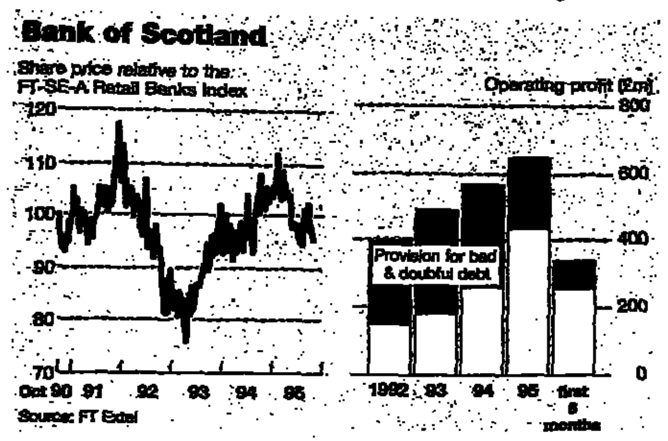
The interim dividend is lifted from 2.13p to 2.45p, payable from earnings per share up from 10.9p to 12.6p. Mr Coleman said sentiment was against the bank because it did not have the cushion of capital accumulated by others.

Mr Peter Burt, the bank's chief general manager, emphasised that it did not foresee having to raise extra capital for the planned purchase of 51 per cent of Bank of Western Australia in the second half.

He believed its Tier 1 ratio of core capital to risk-weighted assets would fall from 6.6 to an acceptable 6 per cent if Bank of Scotland succeeded in placing 49 per cent of BankWest's shares with investors.

The rise in operating profits – from £321.4m to £339.6m – was "acceptable" given falls in operating profits in other UK banks. Lending to customers rose 13 per cent from £23.5bn to £26.6bn, helped by growth at NWS Bank, its finance arm.

Net interest income rose from £460m to £424.7m, but it was affected by a squeeze in the net interest margin.



Siebe £12m expansion

Siebe, the acquisitive international controls group, has paid £12m ($18.6m) cash for the Scada Supervisory Control and Data Acquisition business of Leeds and Northrup Australia.

The business will be integrated into Siebe's Foxboro operation, where Scada's product line will complement its intelligent automation and process control activities.

Scada, which employs 190 people in Sydney and Brisbane, had net assets valued at £8m and made a pre-tax profit of £1.7m on sales of £13.1m in 1994.

Leeds and Northrup is owned by General Signal Corporation of the US.

French losses drag on Blenheim

By Geoff Dyer

Losses at its French operation caused Blenheim Group, the exhibitions organiser, to report a 32 per cent drop in interim pre-tax profits.

However the shares rose 16p to 236p as the figures were slightly ahead of analysts' expectations and after the group made positive comments about trading in France in the second half.

Pre-tax profits in the six months to June 30, which fell from £19.2m to £13.1m ($20m) were depressed by a £2.1m charge related to the closure of operations in Japan and the sale of the UK giftware division.

Turnover was £92.1m (£99.7m), down 8 per cent. However after excluding exhibitions which occur every two years, revenue from continuing business was up 7 per cent.

The group also announced that Mr John Hunt, formerly vice chairman of corporate finance at BZW, had been appointed finance director. He replaces Mr Christopher Crowcroft.

The French business made an operating loss of £3.2m (against profits of £3.4m) on revenues down at £16.6m (£22.6m).

However Mr Staffan Svenby, managing director, said that trading in the second half would "more than compensate" for first-half losses. He added that he was "delighted" with advance sales for Batimat, the November building industry exhibition which is the group's largest.

Profits from the US business fell to £4.5m (£6.9m), after the information technology show in Boston continued to lose ground.

UK profits increased to £8.4m (£5.6m) and profits from Germany more than doubled to £6.4m (£3.1m). The group had a net cash inflow of £12m, against an outflow of £29.5m last time, which helped reduce net debt from £44.2m to £30.4m. Earnings per share were 6.1p (10.8p). The interim dividend is maintained at 3.5p.

Dividend growth with low political risk

Alison Smith considers the changing advantages of the life assurance sector

Results season — Round-up

The interim results season for the UK quoted life assurance sector ended last week not with a bang but with a whimper. This was not a sign that the market was disappointed with the 8 per cent rise in the interim dividend announced by Refuge Assurance. Instead, it was simply that half-year figures produced by Refuge and some other quoted companies say little about how profitable their businesses are.

Because companies such as Refuge, Britannic and London & Manchester do not value their life funds at the half year, these results focus on the interim dividend and on premium income.

A more complete picture of the half year came earlier in the reporting season from Prudential, the UK's largest life assurance and investment group, Legal & General, and Lloyds Abbey Life, which is partly owned by Lloyds Bank.

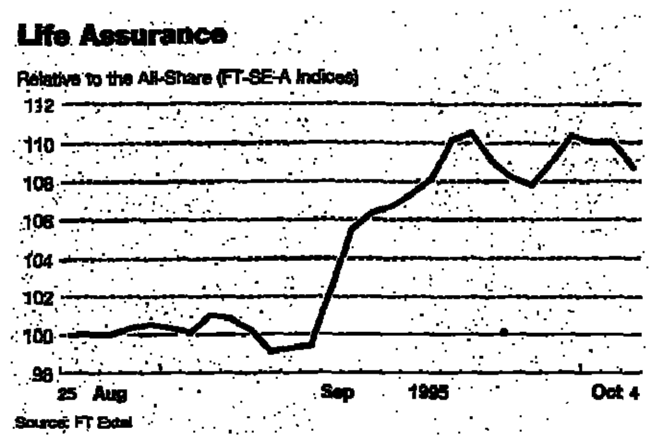
All three reported pre-tax profit increases and higher interim dividends.

At the Pru, pre-tax profits rose by 20 per cent to £335m, ($520m) and the interim dividend was raised 8.2 per cent. For L&G, which does not smooth its investment returns and so has more volatile results, pre-tax profits doubled to £117m, and the interim dividend increased 11 per cent.

LAL saw pre-tax profits rise 15 per cent to £197.1m and raised the dividend by 7 per cent.

That dividend rise was the lowest in the sector, while the highest was the 20 per cent increase in interim dividend offered by United Friendly. This came after discussions with the government allowed United Friendly to restructure its long-term life funds, transferring surplus funds to shareholders.

Britannic and Refuge have begun similar discussions and should underpin progressive dividend policies for the future, though in both cases this is not expected to come through for the 1995 full-year results.



The rises in dividends and profits are in sharp contrast with the generally lower sales figures reported across the life assurance and pensions sector – not just among the quoted companies who make up only about 20 per cent of the market.

From the point of view of shareholders, it is the dividend growth that is the attraction of the quoted life companies. "This is a yield sector and the reason for investing in it is income," says Mr Trevor May, insurance analyst at BZW.

He says that the sector is supported by the combination of dividend growth unparalleled outside the utilities sector and low political risk, which the utilities are less likely to have as a general election approaches.

Mr Roman Cizdyn, insurance analyst at Smith New Court, says it is not just dividend growth that lies behind the sector's buoyancy.

He points to the emphasis put by the Pru on its earnings from assets under management which are not affected by levels of new business and could become increasingly important.

So at present, prospects for future shareholder income seem sufficiently bright to out weigh the gloom of lower volumes of sales. Even if trading conditions continue to be tough, the quoted companies look better placed to survive than some small life offices which lack critical mass or access to capital.

Aviation behind Hunting's advance

By Tim Burt

Hunting, the aviation, defence and oil equipment group, yesterday announced an 11 per cent increase in first-half profits following a restructuring of its aerospace activities.

The group, which manages the Atomic Weapons Establishment at Aldermaston, achieved pre-tax profits of £15m ($23.25m), against £13.5m, on turnover which increased from £559.1m to £565.8m.

The improvement was helped by doubled profits of £3.3m (£1.6m) in the aviation division, where the workforce was cut by 5 per cent to about 1,500.

Mr Ken Miller, chief executive, said the aircraft repair and airline interiors businesses had increased orders, but operating margins were still unsatisfactory.

The aviation division reported first-half profit margins of 3.7 per cent and a 7 per cent return on capital. "That is unacceptable; we want a return on capital of more than 20 per cent," Mr Miller said.

Pursuit of such margins has persuaded Hunting to consider disposals in the division, which includes contract services for the Ministry of Defence, a cargo airline and business aviation services.

Mr Miller was also disappointed by margins in defence, which were unchanged at 2.2 per cent on profits of £7.2m (£7.1m).

However, an upturn is expected following the introduction of incentive targets on the management contract at Aldermaston and weapons orders for the Apache helicopter.

Increased demand, meanwhile, for oilfield services helped lift profits in that area from £7.8m to £8.5m.

Earnings per share rose 28 per cent to 5.9p (4.6p), and the interim dividend was maintained at 4p.

The shares rose 7p yesterday to 219p.

MBO set to bid £200m for most of Tarmac housing

By Andrew Taylor, Construction Correspondent

Schroder Ventures, the private equity investor, is supporting a management buy-out regarded as the front runner to purchase the UK housing operations of Tarmac one of Britain's biggest builders.

The buy-out team led by Mr John Lovering, Tarmac's former chief operating officer, is expected to bid more than £200m ($310m) for between two thirds and three quarters of the housing business. Tarmac initially would retain the remainder. The offer is expected to value the business at about £300m, close to the net asset value at the end of this year, Tarmac has said.

Tarmac expects to sell about 6,500 homes this year, making it the country's fourth largest house builder behind Wimpey, Beazer and Barratt. Six year ago Tarmac was Britain's biggest builder, selling 12,000 homes in 1989.

The management buy-out is included in a shortlist of half a dozen 'serious' potential purchasers identified by Tarmac as likely to bid for whole business. Lazard Brothers, which is advising Tarmac, is expected to send a sales memorandum providing details of the assets to the six potential bidders at the end of this week.

The shortlist is thought to include some housebuilders as well as financial institutions.

Tarmac is understood to have received about 140 expressions of interest, but has decided to concentrate initially on those likely to buy the whole business.

The buy-out team would expect to float the business within about three years.

Court halts Butte US actions

Shares in Butte Mining, the main activity of which is suing former managers and promoters for damages of up to $1bn, fell by 20 per cent yesterday, from 2¼p to 1¾p after the High Court made permanent an injunction preventing it pursuing in the US courts its claims against Simon Engineering, writes Kenneth Gooding.

Butte said the decision affected only four of more than 70 defendants. It would continue its action in the US against others. In addition the ruling said Butte's claims should proceed immediately in the UK and gave leave to defend and counterclaim a claim brought by the Robertson Group, a Simon subsidiary.

COMMODITIES AND AGRICULTURE

Russian harvest heads for 30-year low

By Chrystia Freeland in Moscow

A combination of bad weather and sharply decreased investment in the agricultural sector cut Russia's harvest to the lowest level in three decades, officials said this week. However, the Russian government appeared undecided on whether the country would compensate for the poor crop by buying grain abroad.

With the grain harvest now nearly complete, the country is set to produce between 65m and 66m tonnes of grain this year, down from 81.3m tonnes last year and the lowest level since the 1965 harvest of 66.3m tonnes. In the 1980s, before the collapse of communism, Russia generally produced between 120m and 130m tonnes of grain a year.

Other big grain producers in the former Soviet Union have also suffered poor harvests, but nothing approaching Russia's steep drop in production. With an expected harvest of 36.5m tonnes, Ukraine has actually increased its production by 3m tonnes compared with last year, though the figure is far below 1980s levels.

Since the collapse of communism, the agricultural lobby and conservative opponents of economic reform have annually predicted a devastating collapse in Russia's agricultural production. This year, the doomsday predictions appear to have come true and with parliamentary elections less than 90 days away, the poor harvest is already emerging as a hot political issue and as a focus for widespread public discontent with the Kremlin's economic performance.

Even Mr Alexander Nazarchuk, the minister of agriculture, said a lack of central government financing, rather than the drought which hit central Russia this summer, was responsible for the poor harvest.

"Miracles do not happen," Mr Nazarchuk said. "Given the low levels of government support we could have predicted this harvest in the spring."

On the question of imports, Mr Alexander Zaverukha, deputy prime minister responsible for agriculture, said this week that Russia "would evidently need to buy hard wheat and those types of grain which Russia does not have enough of". But Mr Nazarchuk said that the state did not have any money for grain imports.

Meeting austere budget deficit targets agreed with the International Monetary Fund has emerged as the Russian government's economic priority this year and the budget makes no provisions for centralised grain imports.

According to government officials, Russia needs 24m to 25m tonnes of grain to feed its people and an additional 14m to 15m tonnes for livestock. Domestic grain consumption has fallen dramatically since the collapse of communism, in part because of widespread slaughtering of livestock that farmers can no longer afford to keep.

But people who rely on grain provided by the government – including soldiers and residents of Russia's remote northern territories – could suffer from the poor harvest, which has driven domestic prices of grain up to world levels and depleted state supplies.

The poor harvest has also increased the pressure on Moscow to step up funding for agriculture next year. Mr Nazarchuk said that he had already asked the Ministry of Finance to allot Rbs22,000bn ($4.8bn) for the sector next year.

Overhaul of EU fruit and veg sector planned

By Caroline Southey in Brussels

Mr Franz Fischler, the European Commissioner for agriculture, yesterday announced an overhaul of the European Union's fruit and vegetable sector aimed at reducing over-production and strengthening the marketing capacity of producers.

"The new approach will ensure that the Ecu 1.6bn [£1.3bn] being spent on the sector is invested in the long term development of the industry rather than on the disposal of surpluses which are only of short term benefit," Mr Fischler said.

He denied that the new regime, which has been attacked by southern member states, would disadvantage anybody. The commission was "not saving money", he said. "We will have the same expenditure as in the past. We are supporting producer organisations more".

The measures go some way towards completing the reform of sectors left untouched by far-reaching changes to the EU's common agricultural policy introduced in 1992. The commission has yet to tackle the wine sector.

The central thrust of the changes is to reduce over production by curbing the widely criticised intervention system for fruit and vegetables, which allows producer groups to withdraw, and in most cases destroy, produce from the market when the price falls to a certain level.

Allied to this, the proposals seek to boost the role of producer organisations, which traditionally served mainly for operating the withdrawal system. "The aim is to inject support into the producer groups to make them into real producer groups and to ween them off the withdrawal system," an EU official said.

The proposals also address the EU's much-maligned system of standards for fruit and vegetable. To avoid "over interference" in the lives of citizens, Mr Fischler suggested there could be derogations for some products.

"We need minimum standards but we also need to accommodate traditional patterns of consumption," an EU official said, citing as an example the production of small strawberries in Finland.

The changes are expected to be neutral in budget terms. While the amount spent on withdrawals is projected to fall from Ecu323m in 1996 to ECU 128m in 2001, money diverted to producer groups will be up from zero now to Ecu 257m in 2001.

Although withdrawals will continue, on the grounds that surpluses are an inherent feature of the sector because of its vulnerability to climatic conditions, a number of restrictions are spelled out.

The price paid for products withdrawn will be reduced by 15 per cent over five years – the starting point being the lowest average monthly withdrawal price in 1995-1996.

"The Commission knows that some producers grow for withdrawal. It has pitched the price low enough so that it no longer becomes profitable but just high enough to encourage farmers to pick the harvest," an EU official said.

The second constraint on withdrawal is that producer groups will have to market 90 per cent of their produce, limiting the amount put through the withdrawal system to 10 per cent by the end of five years.

In Greece over 60 per cent of the peach harvest between 1992 and 1994 was put into intervention and over 70 per cent of the nectarines. This was also true of 35 per cent of France's apple harvest in 1992-93.

"Intervention should operate as a safety net rather than as a market outlet itself," Mr Fischler said, adding that the new system would guarantee that withdrawal "is used only as a last resort."

But the success of the new system will depend on the effectiveness of producer groups. Mr Fischler proposed an "operational fund", 50 per cent of which would be financed by a levy on the traded products, and 50 per cent by public funds.

Alaskan mine may top zinc league

By Bernard Simon in Toronto

Cominco, the Vancouver-based metals group, has begun a study on expanding the Red Dog zinc and lead mine in north-west Alaska by 30 per cent, turning the mine into the world's biggest zinc producer.

The expansion has been made possible by the discovery of a large new orebody north of the existing open pit. The discovery has doubled the mine's reserves to about 130m tonnes. A decision whether to proceed with the expansion is expected early next year.

Red Dog produced 284,400 tonnes of zinc and 46,100 tonnes of lead concentrates in the first six months of this year. Under the expansion plan, zinc output would rise to 820,000 tonnes of zinc a year. Lead production would be about 90,000 tonnes.

The new orebody has grades of 14 per cent zinc and 3 per cent lead, slightly lower than the deposit now being mined. Cominco last month described the new discovery as "flat lying and amenable to open-pit mining with a low stripping ratio." The extra reserves are expected to extend the mine's life to at least 40 years.

Cominco owns Red Dog, and pays annual royalties to the NANA Regional Corporation, an agency which promotes economic development among Alaska's Eskimos. Under the agreement, NANA will eventually acquire a 50 per cent stake in the mine.

● BHP of Australia is to develop the A$450m Cannington silver-lead-zinc mine in north west Queensland, subject to port and rail agreements and sales contracts being satisfactorily completed. Start-up is scheduled for late 1997 and it will produce 24m troy ounces of silver a year in 250,000 tonnes of lead concentrate and 100,000 tonnes of zinc concentrate.

London sugar futures volume hits record level in September

By Alison Maitland

Trading volumes in white sugar futures on the London Commodity Exchange hit a record last month as fears grew of a shortage of good quality supplies from the European Union.

The exchange said yesterday that volume in the No 5 white sugar contract was rapidly catching up with its two most heavily traded contracts in cocoa and coffee.

It said 62,694 lots were traded in September, up 93 per cent on August and 45 per cent higher than a year ago. The previous record was 59,567 lots in February. About 99,000 lots were traded in cocoa futures and 89,000 lots in robusta coffee last month.

The sugar trade has become increasingly active in the market recently because of concern that high quality EU sugar, the base of the No 5 contract, may be taken off the export market and put into intervention to boost stocks after drought damaged harvests this year and last.

E.D. & F. Man, the London commodities house, said that although global white sugar supplies were plentiful, good quality EU white sugar might become more scarce.

Man has projected an EU harvest this year of 15.6m tonnes of white sugar equivalent, not much higher than last year's 15.2m tonnes and well down on the bumper crop of 17m tonnes the previous year.

"Because a lot of sugar was taken out of stock last year, there may be a re-accumulation of stocks in member states," said Ms Angela Mutton, analyst.

The London exchange also attributed the increase in sugar trade interest to volumes reaching "an acceptable level that inspires confidence". The contract, launched in 1983, had open interest – unmatched trades – totalling 27,417 lots last month, nearly twice the level of a year earlier.

Nymex raises bid for neighbour

By Laurie Morse in Chicago

The New York Mercantile Exchange has boosted its bid for its neighbour, the Coffee, Sugar and Cocoa Exchange, to $48m as CSCE executives continue their battle to keep the exchange independent.

The $10m increase in the Nymex's two-month-old offer brings its value to about $95,000 a seat for the smaller exchange.

Nymex also says that in the event of a merger, CSCE members will be included in the state-of-the art trading facility the Nymex is currently building in Manhattan. It had previously said the smaller exchange might have to remain in older quarters at the World Trade Centre.

At the same time, the Futures Industry Association, grouping powerful futures clearing and brokerage firms, is increasing pressure on its members to vote against the CSCE's planned move to New Jersey and to give the Nymex offer serious consideration.

The actions come just ahead of a non-binding CSCE membership referendum next Monday, which will give the first indication of how much rank-and-file support there is for a New Jersey move. Traders say the vote will also be viewed as an indirect comment on the Nymex overture.

CSCE executives have flatly refused to negotiate with the Nymex, saying an agreement with the smaller New York Cotton Exchange, and with the State of New Jersey, preclude merger negotiations. However, Nymex executives and dissident CSCE members view that position as a diversionary tactic by CSCE staff, who stand to lose their jobs if a merger with the large oil and metals exchange is consummated.

Last year the Nymex and the Comex successfully merged, with members at both exchanges pleased with the outcome. However several former Comex senior staff executives are still without jobs.

The refusal by senior staff and the CSCE's board of managers to seek membership input on either the Nymex offer or the move to New Jersey has angered both floor traders and brokerage firms. They have pressed the exchange to schedule the referendum and distribute details of the financial package being offered to the exchange by the State of New Jersey.

Now CSCE members find themselves the object of intense lobbying campaigns ahead of the vote. New Jersey, seeking to pluck a prime market from New York, is believed to have to have offered the CSCE first $17m, and more recently, $35m to help finance the move.

CSCE management has retained the investment banking firm Rothschild to assess the value of the exchange, and will present that assessment at an information meeting today.

In a letter to members this week, Mr Laurence Mollner, chairman of the FIA, urged senior executives of futures brokerage firms to give close attention to the issue and not to delegate their CSCE vote to junior staff or floor personnel.

"The FIA continues to question whether any benefits to a move by the exchange to a separate location in New Jersey outweigh the drawbacks," the letter said. "The move destroys the synergy of common location and is likely to negatively affect interest in CSC markets by the New York Community."

At stake, futures industry executives say, is the opportunity for a single, consolidated commodity exchange in New York that would provide significant cost-savings to customers and trading firms and position the markets for competition globally.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1751-52	1784-85
Previous	1741-42	1774-75
High/low		1786/1775.5
AM Official	1742-44	1775.5-76.0
Kerb close		1784-84.5
Open int.	205,690	
Total daily turnover	61,445	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1510-20	1550-60
Previous	1515-25	1555-65
High/low		1560/1555
AM Official	1510-20	1550-60
Kerb close		1555-6
Open int.	3,089	
Total daily turnover	1,082	

■ LEAD ($ per tonne)

Close	596.5-97.5	611-12
Previous	595.5-96.5	610-11
High/low	596	613/608.5
AM Official	595.5-6.0	609-10
Kerb close		610-11
Open int.	31,731	
Total daily turnover	5,105	

■ NICKEL ($ per tonne)

Close	8025-35	8155-60
Previous	7895-905	8025-35
High/low	7900	8150/7980
AM Official	7900-10	8045-50
Kerb close		8120-30
Open int.	44,526	
Total daily turnover	8,414	

■ TIN ($ per tonne)

Close	6285-95	6310-20
Previous	6250-60	6270-80
High/low		6370/6240
AM Official	6250-60	6260-70
Kerb close		6340-5
Open int.	19,654	
Total daily turnover	4,221	

■ ZINC, special high grade ($ per tonne)

Close	1001-2	1024-25
Previous	1003-4	1026-27
High/low		1027/1013
AM Official	992-92.5	1017-18
Kerb close		1022-3
Open int.	78,096	
Total daily turnover	15,153	

■ COPPER, grade A ($ per tonne)

Close	2865-68	2850-51
Previous	2882-86	2857-58
High/low	2857/2856	2857/2825
AM Official	2856-57	2840-42
Kerb close		2855-6
Open int.	187,654	
Total daily turnover	80,715	

■ LME AM Official £/$ rate: 1.5795
LME Closing £/$ rate: 1.5840

Spot:1.5843 3 mths:1.5814 6 mths:1.5782 9 mths:1.5755

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	132.10	+1.50	132.10	131.20	1,391	382
Nov	131.15	+1.20	131.15	131.00	1,180	14
Dec	130.85	+1.20	130.85	129.10	17,552	6,198
Jan	129.35	+0.95	-	-	473	6
Feb	128.05	+0.75	-	-	409	3
Mar	126.85	+0.70	127.40	125.90	4,485	253
Total					31,510	7,081

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	382.75-383.15		
Opening	382.50-382.90		
Morning fix	382.60	242.075	442.298
Afternoon fix	382.50	241.830	441.023
Day's High	383.00-383.40		
Day's Low	382.40-382.80		
Previous close	382.10-382.50		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.13	6 months	4.05
2 months	4.10	12 months	4.06
3 months	4.05		

Silver Fix	p/troy oz.	US cts equiv.
Spot	337.55	533.50
3 months	340.50	537.10
6 months	343.80	541.35
1 year	351.50	551.70

Gold Coins	$ price	£ equiv.
Krugerrand	381.5-384.5	241-243
Maple Leaf	393.55-396.05	
New Sovereign	87-90	55-57

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Oct	383.2	+0.5	383.7	383.5	1,276	573
Dec	384.2	+0.4	-	-	100,593	11,015
Feb	385.6	+0.4	386.2	385.0	22,187	341
Apr	387.9	+0.4	388.4	387.9	9,598	916
Jun	390.4	+0.5	390.5	390.5	12,934	26
Sep	393.1	+0.5	393.3	393.3	1,796	-
Total					180,193	12,897

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Oct	416.8	+2.7	416.8	415.0	1,373	60
Jan	415.8	+2.2	416.5	414.5	20,339	4,843
Apr	418.3	+2.2	417.0	418.3	1,409	71
Jul	417.3	+2.2	417.3	417.0	1,374	1
Oct	417.3	+2.2	-	-	31	-
Total					24,526	4,985

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Dec	138.15	-2.40	141.30	136.50	5,226	150
Mar	139.30	-2.40	140.00	138.25	804	3
Jun	140.55	-2.40	-	-	5	-
Total					6,035	153

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Oct	529.6	+3.8	-	-	11	11
Dec	534.2	+3.7	538.0	528.0	58,297	13,079
Jan	535.9	+3.7	536.5	536.5	24	-
Mar	540.1	+3.7	544.5	534.0	11,152	373
May	544.1	+3.7	-	-	8,449	3
Jul	547.8	+3.7	-	-	6,376	5
Total					98,978	13,520

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Nov	17.59	+0.08	17.69	17.50	64,136	32,729
Dec	17.28	+0.02	17.37	17.24	61,742	13,721
Jan	17.16	+0.02	17.24	17.15	39,585	8,808
Feb	17.09	+0.02	17.11	17.09	20,305	3,027
Mar	17.01	-0.01	17.10	17.04	18,277	458
Apr	17.00	+0.03	17.01	17.00	9,718	1,069
Total					321,856	64,258

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Nov	16.08	-0.10	16.27	16.01	47,489	14,422
Dec	15.90	-0.07	16.10	15.85	51,521	8,582
Jan	15.80	-0.06	16.00	15.79	17,981	1,852
Feb	15.74	-0.08	15.90	15.74	9,105	467
Mar	15.69	-0.07	15.85	15.69	6,696	982
Apr	15.70	-0.01	15.80	15.70	3,033	872
Total					149,916	28,958

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Nov	49.50	+0.22	49.90	49.25	37,170	12,449
Dec	50.00	+0.15	50.40	50.00	37,226	6,758
Jan	50.50	+0.29	50.80	50.25	30,008	4,530
Feb	50.35	+0.44	50.45	50.30	12,585	1,587
Mar	49.20	+0.39	49.25	49.20	5,565	516
Apr	48.40	+0.74	-	-	2,981	182
Total					140,085	26,617

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	149.25	+0.25	150.75	148.75	16,682	5,287
Nov	150.50	+0.25	151.50	149.50	38,553	3,910
Dec	150.50	-	151.75	150.00	22,279	3,095
Jan	150.75	+0.25	151.75	150.00	20,822	2,140
Feb	150.00	+0.25	151.00	149.75	3,562	244
Mar	149.00	-	150.50	149.25	3,477	248
Total					101,319	15,474

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Open int	Vol
Nov	1.845	+0.036	1.865	1.805	27,491	28,256
Dec	1.925	+0.023	1.950	1.900	24,075	12,469
Jan	1.945	+0.015	1.960	1.930	21,109	6,006
Feb	1.880	+0.020	1.885	1.856	11,532	2,720
Mar	1.795	+0.012	1.795	1.790	9,046	1,254
Apr	1.715	+0.004	1.720	1.715	5,208	515
Total					136,262	54,456

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Nov	51.85	-0.08	52.75	51.40	24,114	9,751
Dec	50.60	-0.10	51.10	50.45	12,780	2,172
Jan	50.50	+0.10	50.85	50.45	6,588	742
Feb	50.80	+0.35	50.80	50.70	2,594	177
Mar	51.10	+0.60	-	-	1,290	145
Apr	53.50	+0.55	-	-	2,880	251
Total					53,107	14,403

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	114.80	-0.20	114.90	114.80	2,504	68
Jan	117.40	-	117.40	117.30	1,720	25
Mar	119.35	-0.05	119.75	119.30	1,170	82
May	121.35	-0.05	121.75	121.35	1,986	5
Jul	122.90	-	-	-	74	-
Sep	108.00	-	108.40	108.00	11	5
Total					7,494	185

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	485½	-1	488	481½	64,947	7,840
Mar	494½	-½	495	490¼	23,921	2,391
May	459	-2	459½	457	2,770	200
Jul	411¼	-	411¾	409	8,487	689
Sep	414½	-1	414½	412	148	31
Dec	426	-½	426	422	202	5
Total					100,475	11,156

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	309/2	-1/2	310/6	308/2	248,626	26,973
Mar	316/2	-2/0	318/2	315/4	127,677	8,796
May	318/6	-2/0	320/6	317/6	20,403	1,291
Jul	317/6	-1/4	319/6	316/6	37,319	1,435
Sep	292/2	-1/6	293/4	292/0	4,218	224
Dec	275/6	-1/0	277/0	275/4	16,113	749
Total					464,690	39,515

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	107.75	+0.05	107.85	107.60	747	34
Jan	110.85	+0.05	111.00	110.85	660	35
Mar	112.85	+0.05	113.00	112.80	559	19
May	115.40	-	-	-	175	-
Total					2,141	88

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	638/2	+2/2	640/0	635/4	85,587	25,045
Jan	648/4	+2/0	649/6	645/6	28,081	4,182
Mar	657/4	+1/4	659/0	654/6	14,312	2,498
May	663/0	+1/4	664/4	661/4	7,355	589
Jul	668/2	+1/6	669/4	665/4	7,774	734
Aug	665/0	-1/0	-	-	98	-
Total					183,080	34,365

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	26.89	-0.12	26.83	26.62	3,366	945
Dec	26.72	+0.04	26.90	26.68	37,268	4,319
Jan	26.75	-	26.95	26.76	8,685	541
Mar	26.81	-0.04	27.05	26.80	9,769	619
May	26.83	-0.12	27.15	26.80	4,371	127
Jul	26.85	-0.14	27.01	26.85	3,013	80
Total					67,215	6,644

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	191.4	+2.1	191.5	189.3	4,563	4,657
Dec	194.2	+1.3	194.5	192.3	45,803	10,294
Jan	195.6	+0.9	195.6	194.0	10,025	1,521
Mar	197.2	+0.7	197.5	195.6	7,286	1,321
May	198.2	+1.9	198.2	195.5	4,191	215
Jul	199.9	+1.9	200.0	197.3	3,039	507
Total					75,903	18,939

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	192.5	-2.5	205.0	192.5	1	1
Mar	280.0	-	-	-	-	-
Apr	283.2	+9.8	282.5	288.0	1,249	186
May	325.0	+5.0	-	-	6	-
Jun	360.5	-	-	-	-	-
Total					1,256	187

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	1765	-45	1795	1755	689	184
Nov	1765	-57	1800	1760	627	94
Dec	1740	-55	1750	1735	44	28
Jan	1707	-51	1741	1680	1,094	208
Apr	1660	-70	1670	1660	642	22
Jul	1500	-30	1500	1470	156	9
Total					2,141	88

	Close	Prev
BFI	1857	1879

Nuts and Seeds
1994 crop prices from Kenkko Group; $ a tonne. Iranian pistachios 26/28 raw (in shell) naturally opened (round) 3,750 FOT MEP. New crop 28/30 price indicated at 3,450 C&F/FOT MEP (available December); special promotion for 20/22 (1994 crop) at 3,820 C&F MEP or direct from Iran. US almonds (shelled) 23/25 – new crop price estimated at 6,875 FOB, rising. US walnuts (shelled) light halves and pieces; '95 crop 5,400 FAS – many suppliers withdrawn. Indian cashews W320 (raw) 6,295 FOT Rotterdam – spot supplies plentiful though Brazilians not available till end of month. Turkish Hazelnut kernels 13/15 standard 1s: '95 crop at 3,300 C&F MEP – weak. Sunflower seeds '95 crop: Kansas 22/64 at 800 CIF MEP; N. Dakota 20/64 at 730. Turkish apricots '95 crop at 2,600 FOB Turkey – falling. Desiccated coconut 1,000 FOB Manila – rising.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	895	+3	898	893	27,034	5,176
Mar	925	+3	928	924	29,027	2,543
May	943	+3	946	943	14,258	414
Jul	961	+5	965	960	4,002	32
Sep	977	+3	978	977	12,080	2,100
Dec	996	-2	997	996	5,782	111
Total					99,075	10,532

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	1280	+10	1285	1274	30,054	4,011
Mar	1314	+9	1318	1310	18,891	1,550
May	1336	+6	1338	1333	8,067	139
Jul	1357	+5	1364	1357	3,528	10
Sep	1378	+5	1383	1378	5,324	-
Dec	1408	+6	1410	1408	5,899	1
Total					71,863	5,711

■ COCOA (ICCO) (SDR's/tonne)

Oct 3	Price	Prev. day
Daily	917.04	918.51

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	2374	+34	2395	2350	12,337	1,770
Jan	2287	+47	2305	2253	7,278	270
Mar	2237	+47	2254	2205	3,477	19
May	2188	+58	2200	2150	2,114	27
Jul	2140	+40	-	-	237	10
Sep	2105	+25	-	-	90	2
Total					25,931	3,328

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	123.15	+1.35	124.35	121.60	16,780	5,212
Mar	120.15	+1.55	121.30	118.80	8,634	1,208
May	119.40	+1.25	120.00	118.90	2,384	449
Jul	118.75	+0.75	120.00	118.50	389	26
Sep	119.50	+1.10	-	-	271	3
Dec	120.00	+1.10	-	-	53	6
Total					28,513	6,904

■ COFFEE (ICO) (US cents/pound)

Oct 3	Price	Prev. day
Comp. daily	119.72	120.41
15 day average	119.38	119.65

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	13.25	-	-	-	-	-
Jan	10.90	-	-	-	-	-
Mar	11.95	-	-	-	-	-
May	11.95	-	-	-	-	-
Total					-	-

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	333.6	+0.5	335.0	332.5	10,308	870
Mar	317.1	-0.3	317.5	316.5	10,742	307
May	313.1	+1.0	313.4	311.9	2,912	30
Aug	309.9	+0.8	310.4	309.0	1,586	32
Oct	284.4	+1.4	283.5	283.0	1,799	10
Dec	281.6	+1.1	280.5	280.5	578	2
Total					28,062	1,052

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	10.41	+0.02	10.43	10.33	57,176	3,820
May	10.37	+0.02	10.38	10.33	17,204	528
Jul	10.36	+0.02	10.37	10.32	12,431	221
Oct	10.33	+0.01	10.34	10.28	12,771	562
Mar	10.30	+0.01	10.31	10.28	5,097	80
Total					104,679	5,211

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	95.53	+1.13	97.25	95.50	706	61
Dec	91.72	+1.16	92.56	91.30	32,168	3,517
Mar	92.43	+0.95	93.48	92.20	15,460	1,017
May	93.60	+1.25	94.35	93.10	7,073	259
Jul	93.30	+0.47	94.83	93.30	5,257	345
Oct	80.90	+0.50	81.50	80.50	1,297	17
Total					88,547	5,434

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	111.30	-	112.60	110.80	11,037	862
Jan	113.20	-0.05	114.45	112.90	5,415	521
Mar	115.70	-0.05	116.50	115.70	1,666	25
May	117.90	+0.15	119.00	117.90	1,021	-
Jul	120.20	+0.15	120.80	120.10	388	-
Sep	122.35	+0.30	123.00	122.30	236	-
Total					20,009	1,408

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Oct 3	Oct 2	month ago	year ago
2086.4	2092.0	-	2083.8

■ CRB Futures (Base: 1967=100)

Oct 3	Oct 2	month ago	year ago
240.49	240.35	238.48	-

■ GSCI Spot (Base: 1970=100)

Oct 2	Sep 29	month ago	year ago
182.84	181.08	183.43	171.42

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	63.725	-0.200	63.850	63.475	11,789	2,586
Dec	65.800	-0.050	65.950	65.600	25,319	5,520
Feb	65.375	+0.100	65.400	65.100	13,376	1,946
Apr	65.900	-	65.925	65.700	7,312	658
Jun	61.975	+0.025	62.050	61.900	2,553	291
Aug	60.950	+0.100	61.000	60.925	1,009	80
Total					61,502	11,083

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	45.950	+0.175	46.050	45.660	6,151	2,332
Dec	46.025	+0.200	46.125	45.650	12,281	2,756
Feb	48.275	+0.275	48.350	47.900	6,886	870
Apr	47.200	-0.275	47.450	47.000	2,098	95
Jun	51.500	-0.250	51.750	51.050	2,527	197
Aug	49.800	-0.050	49.850	49.650	1,048	63
Total					33,490	6,428

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Feb	60.425	-0.150	61.200	60.000	5,543	993
Mar	60.500	-0.150	61.050	60.200	474	55
May	61.250	-0.250	61.700	60.800	97	3
Jul	62.475	-0.500	62.475	61.600	421	9
Aug	59.800	-0.550	0	58.800	32	2
Total					6,567	1,080

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Dec	Feb	Dec	Feb
1700	117	155	34	58
1800	62	101	78	100
1900	29	62	143	159
■ COPPER (Grade A) LME	Dec	Feb	Dec	Feb
2800	154	155	34	56
2900	97	101	78	100
3000	58	62	143	159
■ COFFEE LCE	Nov	Jan	Nov	Jan
2700	5	53	331	486
2750	3	47	379	510
2800	2	41	428	554
■ COCOA LCE	Dec	Mar	Dec	Mar
875	41	76	21	26
900	28	61	33	36
925	18	48	48	48
■ BRENT CRUDE IPE	Nov	Dec	Nov	Dec
1600	25	35	9	40
1650	5	17	34	69
1700	-	5	84	109

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Nov)

		+or-
Dubai	$14.65-4.77w	-0.315
Brent Blend (dated)	$16.32-6.36	-0.240
Brent Blend (Nov)	$16.01-6.03	-0.190
W.T.I. (1pm est)	$17.38-7.39w	-0.255

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$171-172	-2
Gas Oil	$150-151	+1
Heavy Fuel Oil	$83-85	
Naphtha	$151-153	
Jet fuel	$177-179	
Diesel	$155-156	+2

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

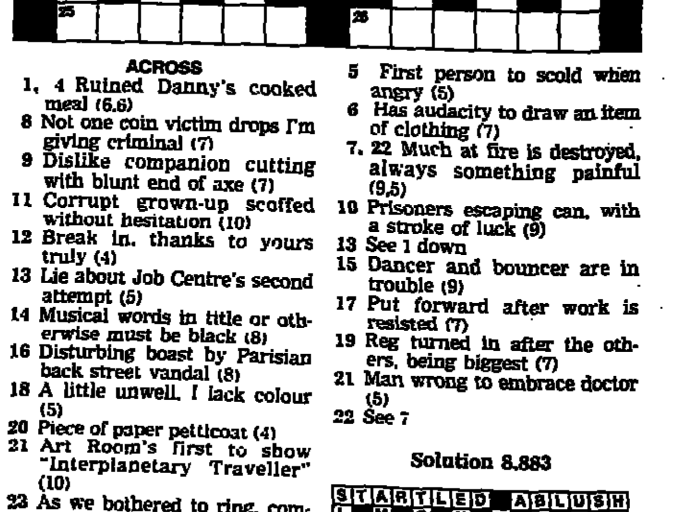
Gold (per troy oz)‡	$382.95	+0.65
Silver (per troy oz)‡	534.5c	-1.0
Platinum (per troy oz.)	$414.75	+1.50
Palladium (per troy oz.)	$136.50	-3.10
Copper (US prod.)	Unq.	
Lead (US prod.)	41.75c	
Tin (Kuala Lumpur)	15.74m	-0.12
Tin (New York)	300.5c	+2.0
Cattle (live weight)†	123.98p	-2.63*
Sheep (live weight)†ф	101.33p	-0.88*
Pigs (live weight)†	97.70p	+1.06*
Lon. day sugar (raw)	$290.10	+2.00
Lon. day sugar (wte)	$372.00	-0.80
Barley (Eng. feed)	£114.50x	
Maize (US No3 Yellow)	£104.0w	
Wheat (US Dark North)	Unq.	
Rubber (Nov)♥	89.50p	+0.50
Rubber (Dec)♥	89.50p	+0.50
Rubber (KL RSS No1)	340.0m	+3.0
Coconut Oil (Phil)§	$715.0u	
Palm Oil (Malay.)§	$620.0z	+7.5
Copra (Phil)§	457.0y	
Soyabeans (US)	184.0u	+1.0
Cotton Outlook'A' index	93.90c	+0.20
Wooltops (64s Super)	475p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. z Oct. u Nov/Dec ♥ w Nov. y Oct/Nov. x Oct/Dec London Physical. § CIF Rotterdam. ‡ Bullion market close. ф Sheep (Live weight prices). * Change on week † Prices are for previous day.

JOTTER PAD

CROSSWORD

No.8,884 Set by GRIFFIN



ACROSS

1, 4 Ruined Danny's cooked meal (6,6)
8 Not one coin victim drops I'm giving criminal (7)
9 Dislike companion cutting with blunt end of axe (7)
11 Corrupt grown-up scoffed without hesitation (10)
12 Break in, thanks to yours truly (4)
13 Lie about Job Centre's second attempt (5)
14 Musical words in title or otherwise must be black (8)
16 Disturbing boast by Parisian back street vandal (8)
18 A little unwell, I lack colour (5)
20 Piece of paper petticoat (4)
21 Art Room's first to show "Interplanetary Traveller" (10)
23 As we bothered to ring, compiler must be dreadful! (7)
24 Unearth version of Bible with a goddess (7)
25, 26 One saddled with a job as a teacher? (6,6)

DOWN

1, 13 down Performer taking care to avoid a sore throat? (5,9)
2 Old composer takes fresh look (7)
3 Knowing Jaguar car is original model (9)
5 First person to scold when angry (5)
6 Has audacity to draw an item of clothing (7)
7, 22 Much at fire is destroyed, always something painful (9,5)
10 Prisoners escaping can, with a stroke of luck (9)
13 See 1 down
15 Dancer and bouncer are in trouble (9)
17 Put forward after work is resisted (7)
19 Reg turned in after the others, being biggest (7)
21 Man wrong to embrace doctor (5)
22 See 7

Solution 8,883

The Indian State of KARNATAKA

Agricultural state turns to microchips

The right noises have been made, but no action has followed, reports Alexander Nicoll

Information technology companies, seeking to capitalise on India's growing markets and its large pool of young talent, have made Bangalore, capital of the southern state of Karnataka, their main centre.

A cluster of companies, supplying software and computer systems to customers in India and abroad, make up what is perhaps the most globally competitive industry in the country. Though their number remains quite small and the range of their activities is still limited, the industry is acquiring depth as new companies spring up to produce software or provide other services for the computer companies which are already established.

If this process of deepening continues, Bangalore will be able to justify being called India's Silicon Valley.

However, there are many hurdles in the way of the high technology revolution, of which the biggest is the inadequacy of infrastructure and public services – a nationwide malaise from which Bangalore, even though it has a number of attractions compared with other Indian cities, has not escaped. Power, telephone lines, water supply, poor roads, traffic, road safety and lack of an international airport are all cited by business as problems.

Thousands of young computer professionals struggle along terrible roads to get to their jobs in software factories which their employers insulate from the world outside by generating their own power, leasing special telephone lines and creating work environments which are conducive to cerebral pursuits.

In Karnataka, power is the biggest problem. According to the chief minister, Mr H. D. Deve Gowda, 9,000 MW of power will be needed by the year 2000, but the state currently produces only 3,600 MW. Mains power is unreliable, so industries which depend on constant supply and voltage, as computers do, have been forced to install their own diesel-power generators.

Nevertheless, people who have made Bangalore their base have few regrets. Because the city is 920 m above sea level, its climate is more temperate than those of the other Indian metropolitan centres. The appeal is heightened by parks, attractive houses, relatively low property prices, and a cosmopolitan atmosphere.

"This is by far the nicest city in which to live and work in India. There is no comparison," says Mr Xerxes Desai, managing director of Titan Industries, a watch and jewellery manufacturer which has its headquarters in Bangalore.

The city's emergence as a centre for computer technology stems from decisions of the central government in New Delhi shortly after India's independence from British rule in 1947. Faced with potentially hostile neighbours to the north in Pakistan and China, the government sought to locate strategically sensitive industries well away from the borders, and away from the coast.

Bangalore was therefore an obvious place to base the Indian Air Force as well as a number of other public sector institutions which were seen as central to India's development under the Congress Party's doctrine of socialist "self-reliance".

The city remains the base for public sector giants such as Hindustan Aeronautics, Hindustan Machine Tools, Bharat Electronics, Bharat Earth Movers, Indian Telephone Industries, and the Indian Space Research Organisation, which develops and launches satellites for civilian purposes.

Although some of the public sector companies no longer flourish, and are hardly at the cutting edge of technology, they did spawn the establishment of a number of universities, institutes and colleges providing engineering and scientific training.

The presence of such companies and educational establishments helped the computer industry to set up around Bangalore. For example, when Titan Industries was founded in the 1980s, it deliberately targeted the employees of Hindustan Machine Tools, which also makes watches.

Mr John Whiting, president and managing director of Tata Information Systems, a joint venture between the Tata group and International Business Machines of the US, says: "We came here primarily because of the talent being produced in Bangalore from its educational establishments. It still produces a lot of talent, although there is some concern over the number of qualified people coming on to the job market."

Computer industry executives caution, however, that while Bangalore is the centre, the industry pulls in employees from all over the country.

Mr Som Mittal, managing director of Digital Equipment (India), which is 51 per cent owned by Digital of the US, says: "We don't specifically choose people from here. We do a national search, although people from Bangalore are obviously easier."

Mr N. R. Narayana Murthy, chairman of Infosys, a fast-growing software company, says its new recruits are a mixture. "We recruit elsewhere but we also have a responsibility to create jobs for Karnataka," he says. The company seeks graduates in engineering and communications applications from all over India.

As an indication of the demand for jobs in the industry, Infosys screens 4,500 people each year from whom it selects 200. Some companies are recording very rapid growth: Tata Information Systems, for example, is thought to be doubling its revenues each year, and will have about 1,000 employees at the end of 1995 compared with 450 at the beginning of the year.

There are two factors behind the growth of the computer industry. First, the liberalisation policies of the central government of Mr P. V. Narasimha Rao, the prime minister. From 1991 onwards, the government drastically reduced the requirements on the private sector to seek official approvals, cut import duties and adopted a more open approach to foreign investment.

Secondly, the computer industry did not exist when most government regulations were written, and therefore its activities are relatively free. Nevertheless, all companies still need to battle with bureaucracy for their basic needs such as land and services from utilities, and corruption is a serious problem in almost all states.

The advent of the computer industry has yet, however, to make much of a dent in the overall economic picture for Karnataka, which remains primarily an agricultural state, producing large amounts of foodgrains, oilseeds, sugar and cotton as well as higher value produce such as coffee, shrimps and silk.

The predominance of agriculture to some extent insulated the state's nearly 50m people – of whom about 76 per cent live in rural areas – from the industrial recession which hit India after the financial crisis of 1991. During the first four years of the 1990s, average economic growth in the state was 5.1 per cent. However, the figure was 4.2 per cent in the 1993/94 financial year and the state estimates only 3.5 per cent in 1994/95 because of an unfavourable monsoon.

The importance of farmers, who benefit from many subsidies, tends to put political and financial constraints on the efforts of the state government to tackle Karnataka's pressing infrastructural problems.

Farming leaders in the state have also adopted a strong stance against foreign investment. They led a fierce though unsuccessful campaign against the local operations of Cargill of the US and are now seeking to eject Kentucky Fried Chicken of the Pepsico group.

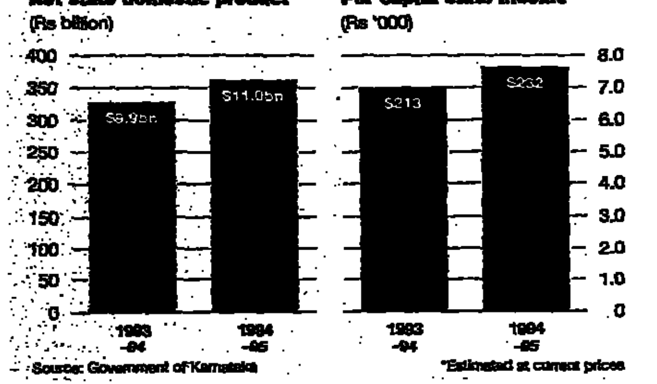
However, Karnataka is actively seeking foreign investment. The government of Mr Deve Gowda, who is from the leftist Janata Dal party, took over last December from a Congress party government in one of a series of state electoral setbacks for the Congress Party, which controls the federal government in Delhi.

Mr Deve Gowda has made clear that he has no major quarrel with the liberalisation policies of the central government and has actively joined in the competition among states to lure foreign investment. In spite of the state's efforts, only about $230m of foreign direct investment has come in since the economy was opened up in 1991, according to central government figures.

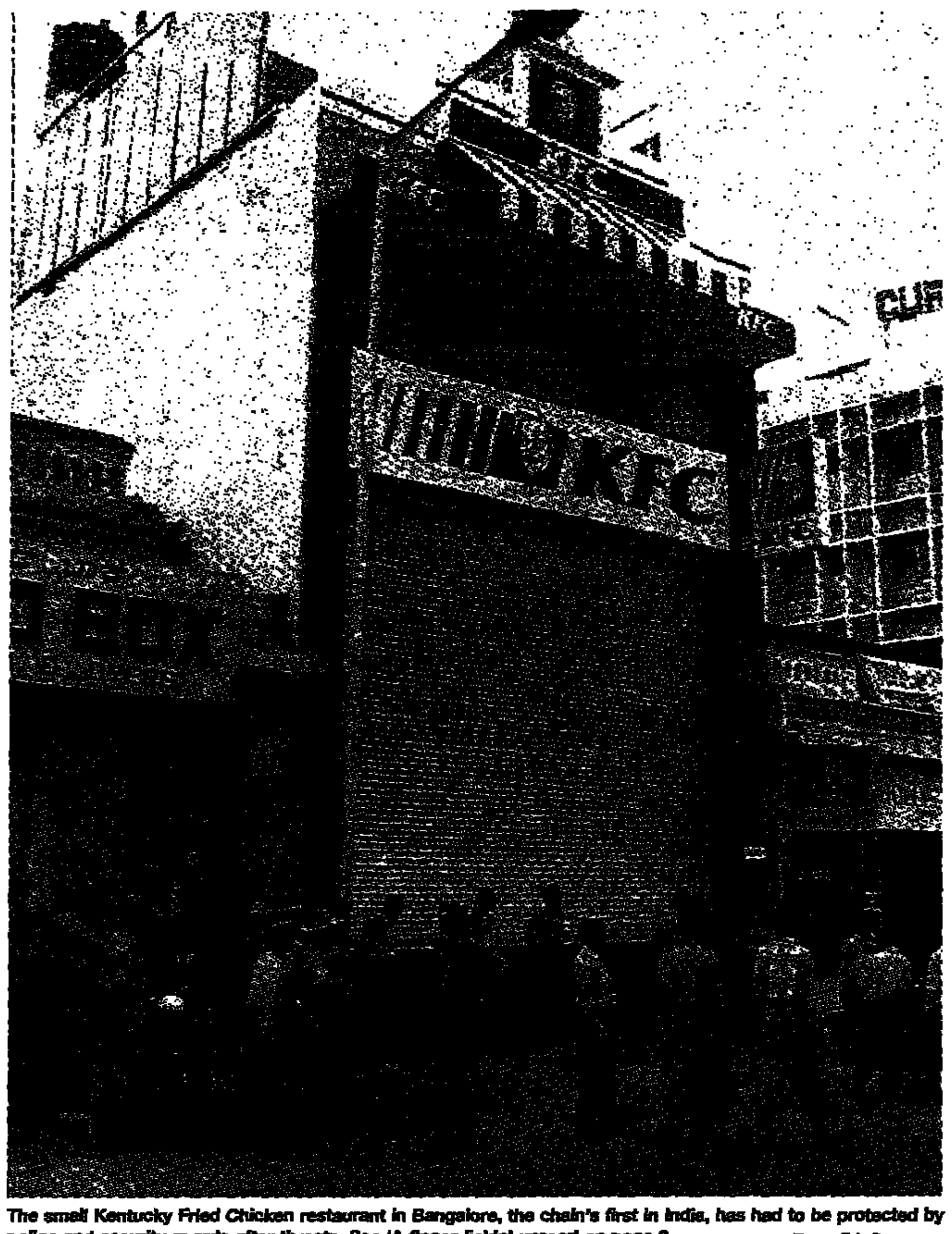
The chief minister has made improvement of infrastructure his main priority, and to this end has put his weight behind the proposal of Cogentrix of the US to build a 1,000 MW power plant on the Karnataka coast. "This government has made it clear that it will proceed with an open mind to invite private investment, taking advantage of the new economic policies, and see that the power shortage we are facing should be sorted out," Mr Deve Gowda says.

The arguments over Cogentrix have assumed extra significance following the decision of the government of the neighbouring state of Maharashtra to scrap a power project which was already under construction by a consortium led by Enron of the US. Cogentrix is actively countering concerns raised by environmentalists, but is still awaiting approvals from both state and central governments.

Businessmen say that although Mr Deve Gowda has given all the right signals on infrastructure, he has yet to deliver any real improvements. They see this as the crucial factor in determining whether the state, and Bangalore in particular, will retain its competitive edge.



Source: Government of Karnataka *Estimated at current prices



The small Kentucky Fried Chicken restaurant in Bangalore, the chain's first in India, has had to be protected by police and security guards after threats. See 'A finger-lickin' uproar' on page 2. Picture: T. L. Ramaswamy

■ Power By Mark Nicholson

Top of the state's wish-list

Even with a decent monsoon, demand exceeds supply at peak periods by at least 17 per cent

Until the monsoon rains swept in with a belated, but providentially torrential appearance last month, Karnataka was staring at its worst power shortage in recent history. Mr J. H. Patel, Karnataka's deputy chief minister who is responsible for power, said cuts of between 50 and 70 per cent would have been imposed.

Such is Karnataka's dependence on hydro-electric power, fed by reservoirs filled by the annual monsoon. Of the state's installed capacity of 3,377 MW, 71 per cent comes from its mostly ageing hydro-electric stations, some of which were built under the British Raj. The remaining power is either generated by Karnataka's few thermal plants, provided by the central government's National Thermal Power Corporation or, increasingly, by captive power units built by industrialists.

But added together, even with a decent monsoon, Karnataka cannot meet its needs. Power cuts are already routine, for demand exceeds supply at peak periods by at least 17 per cent, not allowing for suppressed demand. Reliance on hydro-electric power makes even these supplies vulnerable to the weather, and the state requires heavy investment in thermal stations to provide more "base" power. Like every other state in India, neither the government nor its state electricity board has money to finance new power projects.

According to Mr H. R. Gupta, chairman of the Confederation of Indian Industries in Bangalore, energy-intensive industries are already shying away from Karnataka because of the shortage of power.

Power is "our priority number one," says Mr Patel. "That is why we have taken the decision to invite the private sector and foreign capital. We need at least Rs250bn ($7.8bn) of investment".

In 1991, the central government opened the country's power sector to private investment. Thus, when Mr Deve Gowda's Janata Dal party took power late last year, it inherited a clutch of private sector proposals for power plants. To date the state has received 28 such proposals, 19 thermal and 9 hydro-electric, for an envisaged total of 5,494 MW.

Of these, one matters above all others: the proposal from Cogentrix, the North Carolina-based power development company, to build a 4x250 MW coal-fired plant on the coast at Mangalore. Cogentrix's partner in the project is Hong Kong Light & Power, which holds a 40 per cent stake in the Mangalore Power Company.

The Cogentrix project is one of eight power projects in India to have been offered a central government "counter guarantee", whereby the centre undertakes to assure payment for the privately-generated power from the mostly loss-making state electricity boards, the power purchasers. The project, on which Cogentrix began discussions in 1992, is further advanced than any other big project in the state. It may be the most important test case for foreign-backed private power projects in India since the state government of Maharasthra cancelled the Enron-led Dabhol power project in August.

Cogentrix, like Dabhol, has had to contend with a change of state government. It has, similarly, attracted opposition from Hindu nationalist groups and environmentalists. But unlike Dabhol, the Mangalore project has the backing of the new state administration. "Cogentrix will be cleared in another three to four months," says Mr Patel.

Formally, the project still requires environmental approval and negotiation of the terms of the counter-guarantee with the central government. Both, says Mr Ron Somers, Cogentrix managing director, can be achieved by the end of this year. He hopes thereafter to tie up the financial package for the project by early next year.

After the Enron affair, Mr Somers is acutely aware of the need to remove any suspicion of "cost padding" – one of the charges levelled against the project by the Hindu nationalist Bharatiya Janata Dal party in the state. They point to the fact that when initially conceived in 1992, the project was expected to cost Rs50.8bn, but that this subsequently fell in 1993 to Rs43.8bn – evidence, they claim, that the project's costs must have been inflated.

Cogentrix, however, says that the initial project envisaged a 6x167 MW configuration and that it was the revision to a 4x250 MW format which led to the cost reduction.

Opponents of the deal level further charges – that Cogentrix is importing coal, when India has ample coal reserves, and that the project will harm the environment around its Mangalore site. To the first, Mr Somers answers that imported coal is twice as efficient as Indian coal, and that he could

■ To page 2.

KARNATAKA Key information

■ Area
192,000 sq km

■ Capital and population
Bangalore, population 4.1m out of a total state population of 45m (1991 census).
31% of the state's population is urban.
Other large towns
Bellary, Bijapur, Shimoga, Raichur, Mysore, Mangalore

■ Main industries
Electronics, computer software, telecommunications equipment, aeronautics, machine tools, watch-making, electrical engineering, aluminium, steel, cement, sugar, food processing, textiles, mining, seraculture.

■ Main crops
Rice and other foodgrains, sugarcane, coconut, groundnuts, coffee, cotton.

■ Language
Kannada is the language of administration and is spoken by about 66% of the people. Other languages include Urdu (9%), Telugu (8.17%), Marathi (4.5%), Tamil (3.6%), Tulu and Konkani. English is widely spoken.

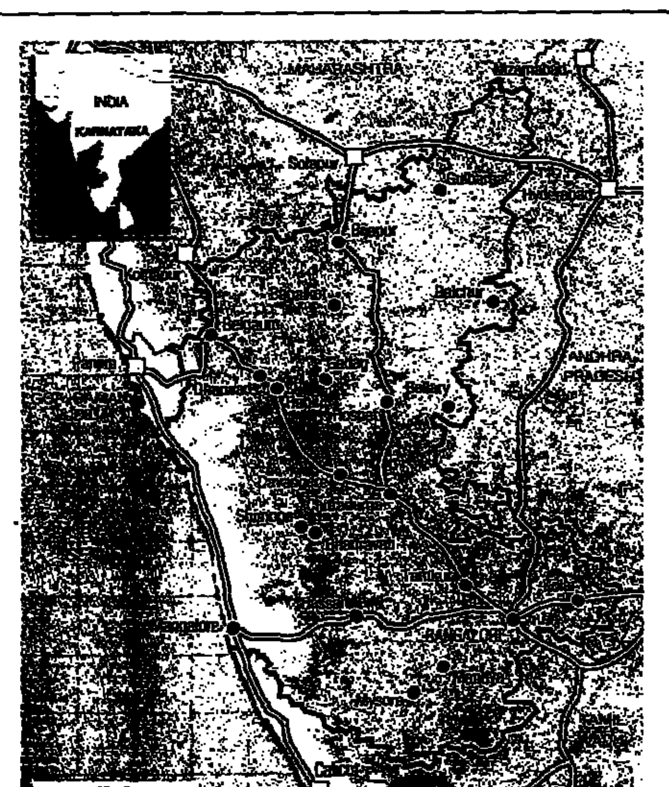
■ Currency
Rupees (Rs) divided into 100 paisa. £1=Rs53.73 at beginning of October.
Import and export of local currency is prohibited. Import of foreign currency is unrestricted, but export can only be effected up to the amount declared on import.

Foreigners generally required to pay hotel bills in foreign currency.
International credit cards are widely accepted in big cities, although can be more expensive than paying by cash. Travellers cheques acceptable.

■ Visa requirements
Required by all foreign nationals. Obtainable from high commissions, embassies and consulates. In London, the embassy is at India House, Aldwych, WC2B 4NA tel (0171) 836-8484.

■ Air links
No international airport, but flights to other main Indian cities

■ Health Control
Yellow fever: Vaccination required if arriving within six days, from or via an infected area, or from most African, Central or South American countries.
Precautions recommended also against cholera, malaria, typhoid, polio and tetanus. Infectious hepatitis (A and B) is common, so precautions are recommended. Intestinal upsets are ubiquitous. Rabies is endemic.



■ Working hours
Business hours:
Government offices: 0930-1700 Mon to Fri; 1000 to 1230 Saturday.
Offices: 0930-1700 Mon to Fri, half-day Saturday
Banks: 1000-1400 Mon to Fri, 1000 to 1230 Sat
Shops: 0930-1800 Mon to Sat.

■ Public holidays
January 1 (New Year's Day), January 26 (Republic Day), August 15 (Independence Day), October 2 (Mahatma Gandhi's birthday) and major Hindu, Moslem and Christian holidays.

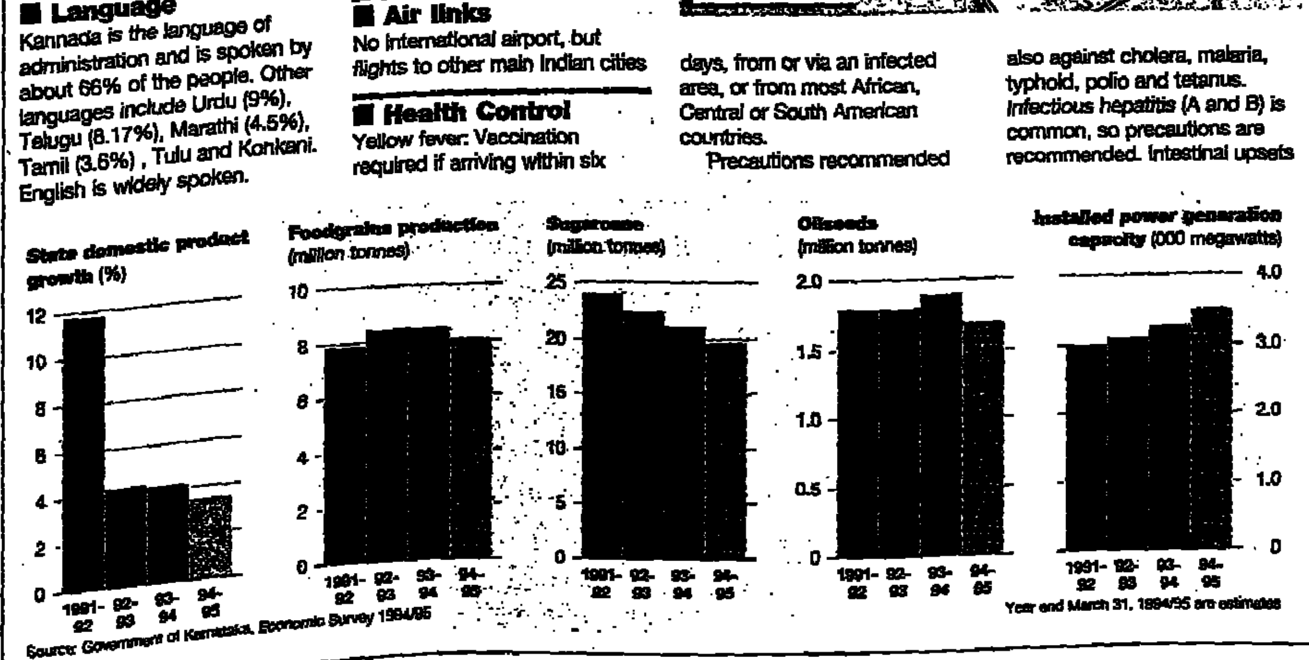
■ Climate
Hot and tropical, with temperatures in Bangalore seldom falling below 15degC in winter, and going above 34 in April, the hottest month. Summer average maximum temperature 33degC; winter average maximum 26degC. Heaviest rainfall in October, with up to 200mm. Dryest months January to March; best months to visit are from the end of the monsoon in November to the beginning of April.

■ Time
Five hours and 30 minutes ahead of GMT

■ Government
Governor: Khurshid Alam Khan
Chief Minister: Haradanahalli Doddegowda Deve Gowda, since December 1994

■ Useful contacts
Karnataka Chamber of Commerce and Industry: Karnataka Chamber Building, Hubli 580 020, tel (836) 63102, fax (836) 365348, president G.B. Hampannavar, secretary G.B. Goudappagol.

Sources: Reuters, Statesman's Year-Book, EIU Country Report, Walden Country Reports, World of Information and others
Compiled by FT Library



Source: Government of Karnataka, Economic Survey 1994/95
Year end March 31, 1994/95 are estimates

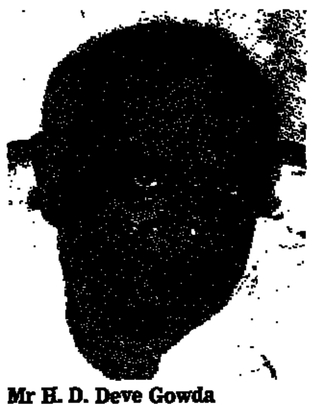
PROFILE **Chief Minister H. D. Deve Gowda**

A pragmatic 'man of the soil'

When Mr H. D. Deve Gowda was appointed chief minister of Karnataka last December, he wasted no time in launching a campaign to attract investment.

Since he is from the leftist Janata Dal party, this was among the first indications that the enthusiasm of the central government for opening up India to foreign investment had spread to leaders of other parties. The Karnataka election result was a reverse for the Congress party which controls the central government, but the new chief minister's pragmatism suggested economic reform might outlast that government.

Mr Deve Gowda was soon seen at the World Economic Forum in Davos, Switzerland, and at the Confederation of Indian Industry's annual conference in Calcutta, sending signals that Karnataka was open for business. Such gatherings appeared an unlikely environment for a 62-year-old "son of the soil".



Mr H. D. Deve Gowda

He fought long and hard through India's complex political web to reach his position. Seen as a man with his feet firmly on the ground, his straightforward approach has been welcomed by business in Bangalore even though it has yet to produce concrete improvements in the state's creaking infrastructure.

"We are lagging behind in infrastructure for developmental activity, including industrial development," Mr Deve Gowda says. He has made the state's shortage of power his main priority for action. The government, he says, "will create and provide all the infrastructural facilities, including land, water ... We do not want to create an atmosphere of delay."

Mr H. R. Gupta, Bangalore chairman of the Confederation of Indian Industry, says of the chief minister: "I feel he's doing a great job. Mr Deve Gowda wants industrial development in the state and is accessible. He's taking every opportunity to spare time and meet people."

Mr Deve Gowda had been due to visit the US and Britain shortly to continue his campaign for foreign investment – competing with other chief ministers who are making similar visits. But the trip was postponed when he came under domestic political pressure because a senior civil servant in the state government was sentenced to a month's jail because the state had failed to enact an order of the Supreme Court in New Delhi.

Alexander Nicoll

Foreign investors: Business is embarrassed by fundamentalist protests, says **Alexander Nicoll**

A finger-lickin' uproar

'No thank you, we don't want any technology,' says leader of the war against KFC

Some foreign companies seeking to build a presence in India run head-on into problems they could not expect. One such is Kentucky Fried Chicken, part of the PepsiCo group.

KFC, which plans to invest \$40m in 30 restaurants over seven years, opened the first in Bangalore in June after obtaining all necessary clearances from the central, state and city authorities. Already, however, it is in court, fighting to stay open. The city corporation is seeking to close the restaurant down, alleging excessive levels of monosodium glutamate (MSG) in the food.

People who want to eat in the small KFC restaurant, located in a busy shopping area, have to go past police and security guards posted to protect it from attack.

KFC's problems have embarrassed business leaders in Bangalore who want to attract more foreign investment to the area and fear that the state's image will be damaged by groups who, in their view, are marginal and do not command significant popular support.

The campaign against KFC is being led by Professor M. D. Nanjundaswamy, a farmers' leader whose views run counter to conventional approaches to economics. He is no stranger to battles against foreign companies, having fought against the entry into Karnataka of Cargill, the US agricultural concern. Cargill's Bangalore office was attacked and burned in 1993, though the group's operations are now flourishing.

Prof Nanjundaswamy's opposition to these companies stems from his belief in an isolationist economic policy of self-sufficiency in which there would be no mass production and farmers would be paid what he considers the true return for the produce of their small lots. "No thank you, we don't want any technology," he says. He considers himself a true follower of Mahatma Gandhi, India's ascetic pre-independence leader.

According to him, Mr Jawaharlal Nehru, who became India's first prime minister in 1947, perverted Gandhi's ideals. "He continued the British model with a socialist label." In the professor's view, it has been all downhill since then: "I wouldn't say that we have achieved any development at all."

He says: "KFC is not just a simple restaurant. It's a multinational giant coming into the food sector, trying to influence standards." His main charges are that KFC is serving "chemically poisoned chicken"; that KFC and other fast food chains, such as McDonald's and Pizza Hut, will divert foodgrains needed for Indians into feed for chicken and cattle. There are also accusations of excessive levels of MSG, and that KFC is perverting Indian cuisine by serving carcinogenic fried "junk food".

KFC rejects these charges. "All these allegations are without any basis. They have no data, no facts," says Mr Sandeep Kohli, managing director of Pepsico Restaurants International in New Delhi. Chickens come from a local supplier which injects no hormones and has had no cases of salmonella or other harmful pathogens. MSG amounts levels are well below the permitted 1 per cent level. Poultry feed, according to KFC, is mainly from agricultural by-products not consumed by humans.

KFC argues that if its food is "junk", then "most of the food Indians consume will be classified as junk". It points out that most Indian snacks, such as samosas and dosas, are fried. "If these fried foods were cancer-causing everybody would be suffering from cancer." Chicken, it says, has low fat and low cholesterol.

Logic may not count for much in what has become a political issue which arouses nationalistic emotions in many Indians, even in cosmopolitan Bangalore. However, the state government remains committed to supporting KFC.

Prof Nanjundaswamy, who claims the support of 10m Karnataka farmers – a figure many consider to be inflated – says he is waiting for the governmental processes to work on KFC. "If our representatives fail us, then we will resort to democratic methods, throwing them out physically – non-violently of course."

Property: Bangalore is an estate agent's paradise, reports **Mark Nicholson**

Prices soar 200% in a year

Since the '80s, successive waves of newcomers have pushed demand ever upwards

These are such good days for Bangalore's estate agents that everyone wants in on the act. "Everybody here now seems to be an estate agent," says one real estate agent in the city centre. "From the lift operator to the teaboys in the street – all sorts of people are calling up to find out from us which properties are available, then trying to move in and broker the deals themselves."

By some estimates, rent and land prices for Bangalore property have trebled or quadrupled in the four years since India's liberalisation policies gave a hefty shove to what had already been a long period of steady property price growth, fed by successive waves of buyers since the early 1980s.

Property prices began their present ascent in the early 1980s, says Mr Feroze Abdulla, executive director of Feroze's Estate Agency, and have since been propelled by successive and merging waves of newcomers. "It's a combination of the good weather here, the convivial atmosphere, Bangalore already being a cosmopolitan city, the good labour relations and, relative to places like Bombay and Delhi, the fact that land was cheap and rents reasonable," he says.

For these reasons, 15 years ago Bangalore became, he says, the "pensioners paradise", attracting well-heeled retirees from north India. To this flow was added another as hundreds of Punjabis fled the sectarian violence which convulsed the state for most of the 1980s. By the middle of the decade, Bangalore's emergence as "silicon valley south" brought in the first big foreign companies looking for office and residential space.

Construction work on a site in Bangalore city centre Picture: Tony Andrews

This latter flow grew considerably after 1991, when the government of Mr P. V. Narasimha Rao, the prime minister, opened India's doors to foreign investment. Indian investors from Bombay, Delhi and Calcutta then started piling into the Bangalore market as prices rose precipitously in their own cities. And in the last year to 18 months, say estate agents, a fresh wave of Indians has crashed into the market from East Asia, either non-resident Indian investors from Singapore setting up businesses or Hong Kong Indians looking to establish a bolt hole. Lately, therefore, says Mr Abdulla, "there's been a tremendous boom – in some places last year there's been an increase of 200 per cent in land prices."

Today Bangalore property remains considerably cheaper than Bombay of Delhi – a factor which has encouraged companies, like Britannia, the Indian foods group, to move headquarters from Bombay, and drawn others, like Motorola, the US communications and software group, and Cazenove, the British merchant bank, to establish new bases in the city. Some expatriates today choose to live in Bangalore, where their housing packages stretch further, while working in Bombay.

The result has been a sharp rise in land and rent prices over the past three to five years. On average, land prices in central Bangalore – generally meaning within three or four kilometres of MG Road, the city's prime commercial street – have shot up in the period from around Rs1,800 a square foot to between Rs6,500-Rs10,000 a square foot. Rents in prime commercial areas have risen from around Rs15 a month a few years ago to nearer Rs60 to Rs100 a square foot today.

Residential prices have followed suit. Rents for modest, reasonably central two-bedroom apartments have more than doubled to Rs50,000 to Rs80,000 a month in the period, while land prices have soared. Where couples might four or five years ago have managed to find good, central houses for Rs800,000 to Rs900,000, today estate agents say bidding starts nearer Rs5m.

But prices remain cheaper in general than New Delhi, and far better value than extortionate Bombay. "Sell your flat in Bombay," says one Bangalore architect, "and you can buy five good flats in Bangalore."

As in both Delhi and Bombay, however, landlords are rare who do not demand that a year to two-years' rent be paid in advance to secure a property. But, unlike both northern cities, good, central property remains available. Though the Bangalore market is tighter than ever, estate agents say it remains possible both to find spacious office accommodation within reach of the centre and, something unheard of in Bombay, to purchase land for fresh development within the city centre.

Motorola, for instance, has just moved into a purpose-built 11,150 sq m headquarters in Ulsoor Road, dead city centre.

And while Bangalore suffers, like other big Indian cities, from multi-layered legal and bureaucracy-bound restrictions on land purchase, estate agents and architects say the illicit mechanisms for circumventing such laws, or expediting affairs, are better oiled in Bangalore than other cities. "It's never a problem," says one, "if you have the right lawyers, the right contacts and, of course, the right dollars."

For the present, estate agents suggest, the Bangalore market is steadying. Mr Abdulla believes prices will continue to rise, but more modestly – by perhaps 25 per cent – over the next six months to a year. But in the longer term, many also agree that Bangalore's popularity is stretching its infrastructure to breaking point.

Power cuts are common across town and, given the likeliest outlook for new power generation in the state, will worsen over the next four or five years. Transport is a growing headache, with prospects for the city's vaunted new airport and rapid transit system still distant. Bangalore's city centre roads, meanwhile, are clogging fast and the main arteries outwards, towards Madras, Mangalore and Mysore – becoming the new loci of heavy and light industrial development – are crumbling, narrow, slow and choked with traffic.

PROFILE **Motorola**

'You have to follow the rules'

Dinesh Raghavan says he has been "pleasantly surprised" by his experience setting up and running Motorola's new pager manufacturing plant in the "Electronic City", a government-sponsored industrial site 18 km outside Bangalore.

"I came here with a lot of negative perceptions," admits Mr Raghavan, a Motorola veteran who joined the US electronics, communications and equipment group 18 years ago in Malaysia, but has spent most of his career in the facilities in Florida.

"I thought India would be a difficult place to work in because of the bureaucracy and the perceived level of corruption." But he says he has not encountered any corruption. "There are systems, and you have to follow the rules," he says.

Even India's bureaucracy seemed to move quickly for Motorola, probably helped by its presence in the sub-continent since 1987, when a representative office was established in Delhi, and the setting up of a datacommunications products' manufacturing facility in 1990, which is also in Bangalore. "The Delhi office knew the procedures," says Mr Raghavan.

The decision to establish the plant was taken in August 1993 and after a two-month search for a site the plant opened in April the following year. "There was a shell here but we installed everything else," he says.

In this case, "everything" included the 2,78 sq m plant's own generator and voltage regulators to ensure the facility could continue to operate despite the daily power cuts and voltage reductions which plague businesses in Bangalore.

Despite the chronic infrastructure problems, Motorola chose Bangalore "because it is viewed as the Silicon Valley of India," says Mr Raghavan. Many multinationals, including Hewlett-Packard, 3M and Fanuc, have also established operations there.

However, the biggest lure for foreign electronics companies is low cost, high quality labour and the opening up of the domestic market.

Underscoring the plant's success in achieving high quality standards, it obtained ISO 9002 certification within five months of beginning operations.

Motorola's strategy in setting up the facility was to supply the local Indian pager market once it takes off. The first pager services in India began in metropolitan cities, including Bombay, earlier this year. By the end of 1995, services should be available in 27 cities around the nation.

Some industry analysts believe the market could be as big or bigger than China, and Motorola is not alone in spotting the opportunity. Philips, of the Netherlands, has already set up a manufacturing facility; Casio, of Japan, has plans to set up a plant in Goa; and Korean manufacturers are believed to be eyeing the market.

Ahead of the expected boom in domestic demand, Motorola shifted manufacture of its "Adviser" pager out of Singapore to the new plant in June last year, enabling the group to take advantage of India's relatively low wages and run the Bangalore facility at full capacity. It is currently producing pagers worth around \$100m annually, mostly for export to the Asia Pacific region.

Currently, 249 employees work two shifts at the plant. "We would love to open a third shift but women cannot work after 10pm or before 6am", says Mr Ragavan, and Indian law says that shifts must be rotated, ruling out an all-male night shift.

There have been no industrial relations problems at the Motorola plant, and Mr Raghavan says the workforce is highly committed and motivated.

He believes Western companies have an advantage in India, where the prevailing work culture is usually hierarchical and status orientated. "We provided a refreshing change," he says.

Nevertheless, he also believes Western employers are largely responsible for the rampant wage inflation in Bangalore, particularly among experienced technical staff.

Motorola's own wage costs rose by 28 per cent last year, although managers acknowledge that they are well below Western rates. Line operators, who comprise about two-thirds of the staff, are paid \$100 a month and engineers \$300 a month.

The group has had considerable success with Motorola India Electronics, its fast-growing Bangalore-based research centre which writes software for all Motorola's businesses. It is also developing software for the \$3.4bn Iridium project, which is due to become operational in 1998, and will provide global wireless hand-held telephone services via a network of 66 low-earth orbit satellites.

Meanwhile, Motorola's Land Mobile division began assembly of two-way hand-held radios a few months ago and a semi-conductor sales office has been established in Bangalore.

These new investments underline Motorola's determination to play a key role in the rapidly-developing domestic Indian information technology market – aided by the new pager plant the group is already ranked as India's largest telecommunications equipment exporter.

Paul Taylor

Top of the wish-list

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not anyway secure financing based on the "best efforts" delivery promises of the notoriously unreliable state-owned coal and rail operations.

On environmental issues, Mr Somers says: "It's exactly as if we were doing the deal in California". He concedes that the proposed imported coal has a higher sulphur content, but says that since less needs to be burned and since imported coal leaves a third less ash, the environmental impact will be less.

Even if the project sails through, however, it will still provide only 1000 MW. At least five more Cogentrix-sized projects are necessary to meet likely demand in 2000.

Mr Patel says two other US power groups are interested in installing new thermal units, with total proposed capacity of 800 MW. Otherwise, prospects appear limited. Industrialists, accordingly, are increasingly providing their units with captive power. Connected industrial demand in the state is around 1,200 MW, and more than 900 MW is now generated by captive units.

In the longer term, attracting investors will depend upon being able to offer them viable returns, which in turn will require restoring the state's loss-making electricity board to solvency. In Karnataka, as in most other states, the solution will lie in charging the state's farmers, who presently receive their power free.

Until tariff rationalisations are made, the base for investors is shaky. Of the state's power, 43 per cent is supplied, free, to farmers, while 23 per cent is lost or stolen in transmission. Two thirds of the state's power is, therefore, not paid for.

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■ **Software:** The state is home to some 114 companies, reports **Paul Taylor**

Bangalore India's 'silicon plateau'

Growing domestic and international competition casts a cloud over industry

Bangalore's computer software industry has experienced explosive growth over the past five years, earning Karnataka's state capital the title "India's Silicon Plateau".

Now, however, there are concerns over whether that growth can be sustained in the face of growing domestic and international competition, inadequate infrastructure and escalating costs.

According to G. S. Varadan, director of the government-backed Software Technology Park scheme in Bangalore set up to encourage the development of export-orientated software industry, there are 114 of these companies in the area.

Among the indigenous high technology companies which have established themselves in Bangalore are Wipro Systems, one of the largest Indian hardware and software vendors; Infosys Technologies; and Sonata Software.

These in turn have been followed by a galaxy of multinational IT companies which have adopted varying strategies to tap into the local labour market of software engineers and gain competitive advantage through what has become known as "offshore outsourcing".

Some like Digital Equipment, International Business Machines and British Aerospace have formed joint ventures with existing Indian players. Among them Tata Information Systems, IBM's hardware and software joint venture with Tata Industries, has grown rapidly to become one of the largest IT companies in India.

BAe-HAL, a joint venture between the UK-based group and Hindustan Aeronautics and Unit Trust of India, formed two years ago, is focusing on real time systems such as air traffic management, and maintains Sunlife Assurance's annuity system remotely using a dedicated high-speed satellite datacoms link.

Others, including Texas Instruments, one of the offshore pioneers, have set up wholly owned subsidiaries focused on export markets – TI's Bangalore operations are involved in advanced semiconductor chip design.

Meanwhile, US groups including Hewlett-Packard and Motorola have established manufacturing operations in Electronic City – a government and state-sponsored technology park complete with satellite earth station facilities 18km outside Bangalore, designed to serve the fast growing domestic market.

More recent additions to the Bangalore technology roll call include VeriFone, the US transaction automation group; Siemens Communications Software, a wholly owned subsidiary of the German conglomerate; Oracle Software and Novell Software, which have both set up software development centres; and Compaq Computer, which is aggressively attacking the domestic PC market.

Many of these companies are growing by more than 50 per cent a year and employing rapidly increasing numbers of graduates. For example Siemen's Communications, set up 18 months ago to build software for the group's digital switching systems, already employs 250 people. Hans Krafka, managing director, plans to grow his workforce of software engineers to 1,000 by the end of the decade.

According to Kunal Kashyap, a consultant with Arthur Andersen in Bangalore, 85 per cent of new software companies that come to India chose Bangalore as their headquarters, mainly because of the availability of "a large pool of low cost professionals".

Andersen has advised a number of multinationals on siting for their new Indian operations. Based on a range of factors including transport, power, telecommunications, labour availability and "liveability", it rates Bangalore as the first preference for locating a new software development.

Bombay, which actually boasts more indigenous software companies than Bangalore, is ruled out because of its extremely high property prices, while Andersen says Delhi and Madras could be considered as "alternative, backup locations".

The Karnataka capital owes its success in attracting new IT investments to a combination of political, industrial and geographical factors.

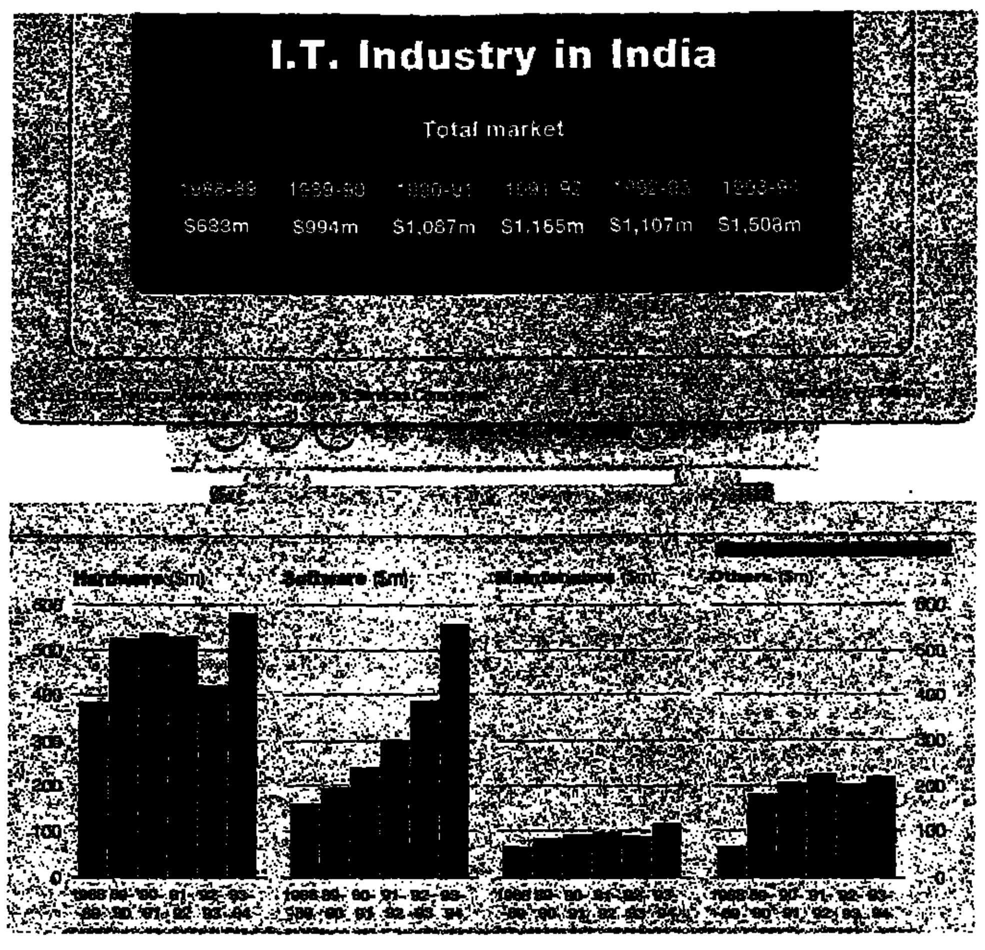
Back in the 1950s, the Indian government decided to establish several strategically important public sector industries in Bangalore – well away from India's northern borders. Those public sector companies included Hindustan Aeronautics, Bharat Earth Movers, Bharat Electronics, Hindustan Machine Tools and Indian Telephones Industries – names which still play an important role in the state and the country as a whole, employing thousands of people.

When first the indigenous Indian computer software and services industry began to develop in the early 1980s, Bangalore's public sector employers, among the few Indian organisations with extensive software and hardware installations, provided a ready source of expertise.

By the mid 1980s, IT companies in the US were already experiencing a shortage of software engineers – a shortage which led to large numbers of Indian engineers going to work for American technology companies, and to the emergence of an Indian software industry based on the supply of trained software engineers to US firms on short-term contracts.

The "body shopping" business was based largely on the relatively abundant supply of cheap Indian engineers who could be hired then for a fraction of the salaries of their Californian colleagues. However as US and other western companies built up confidence in the quality of Indian software, developers switched from on-site development to offshore services supplied from India.

At the same time, the liberalisation of foreign ownership rules, the drive for export earnings and the opening up of the domestic economy which was begun in 1991 has encouraged a growing number of foreign IT companies to establish their own operations in India. Initially many of them used their Indian start-ups for tedious programming jobs. But now many of them are relying on their Indian operations to design, build and test complex software applications for the global market.



Bangalore has had a number of key advantages when it comes to attracting the new foreign investment. First and foremost is a supply of well-educated engineers. Bangalore is home to a large number of national research laboratories and prestigious higher education establishments, including one of India's six Indian Institutes of Technology.

The state of Karnataka as a whole has 18,000 college places for engineering. Despite rampant wage inflation – particularly for experienced software engineers – a first-class graduate can still be recruited for about Rs12,000 a month (about £2,800 a year), although a new recruit can expect his salary to triple over three or four years.

But most start-ups say that relatively low labour costs are only one reason for setting up operations in Bangalore. "We did not come here to save money, we did not come here to service the Indian market," says Ranjan Chak, executive director of Oracle Software. "We just needed to expand our resources and getting established here was a way to minimise the risks."

Other factors include the state's relatively good record of labour relations, the Karnataka government's positive attitude towards foreign investors, and Bangalore's pleasant climate.

With an altitude of just over 900 m and relatively light rainfall, Bangalore has been described by its inhabitants as having "an air-conditioned climate". Until recently the city was also relatively uncrowded and land prices and housing were cheap compared with Bombay or Delhi.

But Bangalore's success in attracting new business ventures and its rapid population growth is taking its toll on the city's infrastructure, which is on point of collapse. Bangalore has no effective public transport system – and no taxis – so the pot-holed, congested and polluted streets are bursting at the seams.

Most crucially, power cuts and voltage reductions are a daily occurrence. Although software companies are not big power users, they must install voltage regulators, uninterruptable power supplies and generators to run their computers. "Power is a major concern," admits Andersen's Kashyap. Similarly although historically Karnataka has had enough water there is now a looming shortage – mains water is only available two days a week and bore-holes are drying up.

The local telephone network has improved dramatically, but according to John Whiting, managing director of TISL, the IBM-Tata joint venture, one in three calls still fail to get through to TISL's switchboard. Meanwhile he warns that official restrictions over the deployment of higher capacity satellite links could constrain growth. Whiting, who is also chairman of the American Business Council in Bangalore, warns bluntly: "The business community feels there is not a plan to handle the high growth rate here."

Overall costs are growing at about 25 per cent a year, says V. Chandrasekaran, president of Wipro Systems. The price of office space on in the central business area has risen from Rs1,800 a square foot two years ago to between Rs6,000 and Rs8,000 today, although plans for a new Singapore-financed Technology Park on the outskirts of Bangalore could eventually ease pressure.

Meanwhile, staff turnover is high and employers in the industry report that wages are rising by an average of 20 to 25 per cent a year. "From a multinational's point of view it's not a critical issue yet," says Krafka of Siemens Communications. "As long as salaries are at an appropriate level, then the software industry will flourish. However he, like other mangers, warns that if salaries continue to spiral, he would be under pressure to move the operations back to Europe. "That is a danger for India," he says.

"If things go well Bangalore could become the software capital of the world," says Mr Varadan in his office in the Electronic City. But most industry leaders warn that unless the city's infrastructure is improved urgently, new IT investments may go elsewhere.

Top 20 Indian Software Exporters

Rank	Company	Exports (Rs m)
1	Tata Consultancy Services	2,000.00
2	Tata Unisys Ltd	750.00
3	HCL Hewlwtt Packard Ltd	405.00
4	Digital Equipment (India) Ltd	384.10
5	ICIM Ltd	322.50
6	Wipro Systems Ltd	301.50
7	Silverline Industries Ltd	300.00
8	Pentafour Software & Exports Ltd	283.00
9	Patni Computer Services	282.50
10	Infosys Technologies Ltd	274.90
11	Citicorp Overseas Software Ltd	247.30
12	Information Management Resources	243.70
13	Siemens Information Systems Ltd	199.80
14	Square-D Software Ltd	194.30
15	Wipro Infortech Ltd	155.30
16	Citicorp Information Technology Industries Ltd	144.60
17	Tata Information Systems Ltd	140.90
18	Mahindra British Telecom Ltd	138.60
19	Texas Instruments Ltd	138.40
20	PSI Data Systems Ltd	137.30

Source: National Association of Software & Services Companies

■ **Water wars** By **Yagati Krishnamurthy**

State pays for lack of policy

The problems show how central and state politics can become entangled

Two rivers – the Cauvery in the south and the Krishna in the north – are the lifelines of Karnataka. But not much good has flowed down them. Long stretches of countryside alongside them are parched as a result of interminable disputes between the states through which they flow.

Though plenty of water flows into the two river basins, little of it ends up on the land it is supposed to irrigate. The problems are an example of how central and state politics can become entangled, preventing effective action to solve India's fundamental problems.

The disputes have been allowed to fester because of the absence of a national water policy to resolve inter-state disputes, and a lack of political will among the rulers of the states.

The longest-running argument has been over the Cauvery, with the neighbouring state of Tamil Nadu. Its origins lie in a water-sharing agreement decreed by the British in 1924, which was complicated by the 1956 reorganisation of states following independence from British rule in 1947.

Karnataka, formed from the state of Mysore and parts of Bombay and Hyderabad states and the Madras presidency, was barred by New Delhi from using outlays under the central pan to harness Cauvery water to irrigate land.

In the 1970s the state government defied the Planning Commission and used state funds to implement some irrigation projects. But its efforts were matched by Tamil Nadu, where the government in Madras made alliances with the Congress Party government ruling in New Delhi in order to frustrate Karnataka.

The dispute became increasingly politicised. In the late 1980s, the two states were on the point of reaching an amicable accord when the then prime minister, Mr V. P. Singh, as a favour to a political ally in Tamil Nadu, appointed a tribunal to adjudicate the states' claims to Cauvery water. At the time, Karnataka had a Congress Party government which was opposed to the Janata Dal government in New Delhi.

The present Tamil Nadu chief minister, the formidable Ms Jayalalitha, refused to talk to her Karnataka counterpart in the early 1990s. At one point, she began a "fast until death" in order to persuade the central government to implement an order of the tribunal. Each year, passions are whipped up, lives are lost and property destroyed. The Supreme Court in New Delhi is presently hearing petitions from both the states.

The dispute over the northern river Krishna also stems from the formation of Karnataka, since much of the river basin was formerly in Hyderabad state which became the present Andhra Pradesh. The government in Bangalore, which is in the south, showed little urgency in accessing the water from the Krishna.

The dispute with Andhra Pradesh went before a tribunal in 1969. But by the time tribunal had completed its job, Andhra Pradesh had almost completed the Nagarjuna Sagar Dam, staking claim to more water. The tribunal awarded the largest share of water to Andhra Pradesh, and stipulated that the degree of exploitation of the allocated water would be used as criteria for distribution of surplus water to the states in 2000.

However, Karnataka has only exploited about one third of its allocation, in spite of getting World Bank finance to do so. The basin remains largely unirrigated, and the state's performance in rehabilitating and compensating those who lost land through water projects has been disappointing.

Karnataka now faces a grim prospect of losing water resources to Andhra Pradesh which has made greater efforts to build infrastructure. The present state government of Mr H.D. Deve Gowda is belatedly seeking to address the problem, allotting budget funds and issuing bonds to finance a plan to use all its share of water by 2000.

Irrigation in 1990

Area (m acres)	Water use (bn cu ft)
Tamil Nadu: 2.58	501.5
Karnataka: 2.14	322.8

■ **Infosys:** Something of a darling among foreign investors, writes **Mark Nicholson**

Aiming for the $100m mark

GE, Reebok, Holiday Inn and at least one leading US bank are clients

It's a long, grinding haul out to Electronics City, the state-run high-tech park which houses the headquarters of Infosys, one of India's most ambitious and best regarded software companies: 20km of delapidated road clogged with mostly delapidated trucks and cars. Small wonder Infosys has built a dormitory for the candle-burners among its 1,000 on-site workers.

But there is nothing grinding or delapidated about Infosys' bright and airy new 13,470 sq m centre, which it claims to be India's biggest single software facility, nor about this relatively small company's progress towards its considerable ambitions.

"It's our desire to be a $100m company by March 31 2000," says Mr N. R. Narayana Murthy, chairman and managing director. "I want to have 1,000 rupee millionaires among our staff here. In US terms, we probably have about 50 dollar millionaires here today."

Including, presumably, Mr Murthy, one of seven software engineers who founded the company in 1981 with, he claims, $300. Six of those seven remain, all board members and full time Infosys employees, in a company which last year turned in a 32 per cent rise in net profits to $3.5m on gross revenues of $18m through sales of software services and its own products, 85 per cent of which to clients overseas. Of more than 30 main clients, says Mr Murthy, 20 are Fortune 500 companies, including GE, Reebok, Holiday Inn and at least one leading US bank.

Such a client rosta and Infosys' steady growth have already established it as something of a darling among foreign international investors, which hold 23 per cent of Infosys' stock – half of which is in the hands of its employees under one of India's first employee share ownership schemes.

"Everyone loves them," says the India head of one UK merchant bank. "They could well be on the verge of becoming a real global player."

And such is patently Infosys' intention. Mr Murthy reels off a list of Indian firsts he claims for the company, each of which signals its global designs: it is India's first company to own its own videoconferencing equipment; the first to establish its own data communications network; the first software group to win an ISO 9001 quality standards certificate; and the first and only group to submit its annual accounts both to Indian and US generally accepted accounting standards. "We did that not because we have any intention in listing in the US," says Mr Murthy, "but being a company that receives financial analysts every week, a lot based outside India, we must make their task easier in understanding our financials."

At present the company earns 87 per cent of its revenues through software services, supported by a network of overseas centres, mostly in the US in Boston, San Francisco, Cincinnati and New York. A full US subsidiary began operations last month. But the aim, says Mr Murthy, is to have Infosys product sales rise to 40 per cent of turnover by 2000.

Infosys at present offers three main products: Eagle, a warehouse management software system; DMAP, a system for distribution management; and Bancs 2000, a software package for complete bank branch automation – a product already installed with several Indian banks and financial institutions and which is fast finding takers in Africa. Further products, says Mr Murthy, are in the works.

Indeed, sustaining a competitive edge in an industry where a lead in technological or software development can last only a matter of months is clearly Infosys' priority, and one Mr Murthy puts in terms of finding, training and retaining the best of India's young software engineers. Infosys claims to lose about 10 per cent of staff to rivals, or bigger companies overseas, each year – a figure about half the average for other Bangalore-based software houses.

The company hired 200 new recruits last year, culling from the Indian Institute of Management and other high-grade Indian colleges. Computer and software knowhow is less the criterion of selection, company managers say, than the "learnability" of candidates. "The only constant in this business is change," says Mr Murthy, "so we look for people who can learn quickly, and that tends to mean younger people." He says for every five recruits, the company will interview 100.

To keep them, he says, Infosys seeks to "empower" new recruits early, giving them responsibility for new projects and applying a meritocracy backed up by the stock ownership programme and the sight of the company's six now rather wealthy founders at work on the shop floor. "No-one can be on the board who is not a full-time employee – as a matter of principle," says Mr Murthy. "People have encouraged us to have non-executive members, but if we want a different view, we hire consultants."

The approach is one consistent with the company's foundation which, Mr Murthy explains, began with the principle that the company should be one "of the professionals, by the professionals, for the professionals". When he and his six colleagues started out, he says, they sought to find a business which could grow in its own terms outside the constraints of early 1980s India, those of licencing and government controls, where industry was led by big business houses with political connections. "We saw software as an area where professionals could leverage a business on their own," he says.

Running through a list of India's biggest business houses, he says few have so far managed successfully to cultivate their own software businesses. "The old, feudalistic way of running companies doesn't work," he says. "You need to keep the brightest and best by empowering them, giving them responsibility. It needs a different kind of leadership."

The approach seems to have worked so far. Infosys' investors certainly have faith. Stock which sold at Rs95 two years ago is now trading above Rs460 a share and is, according to one UK analyst, an equity on which Infosys' institutional shareholders are sitting tight.

INTERNATIONAL CAPITAL MARKETS

Lukewarm response to D-Mark deals

By Conner Middelmann

The D-Mark sector sprang back to life with four medium-dated bonds, but the deals, three of which were triple-A rated five-year bonds, got a lukewarm reception.

While most dealers did not quibble with the terms of the issues, they said the five-year area – one of the few sectors in the eurobond market offering attractive swap opportunities – was still suffering congestion after a glut of issuance earlier this year.

INTERNATIONAL BONDS

"The market can't take any more triple-A rated five-year paper," said a Frankfurt dealer.

Landwirtschaftliche Rentenbank issued DM300m of 5.75 per cent five-year paper via Nikko Bank, a large chunk of which was aimed at Japanese investors.

Priced at 33 basis points over the corresponding Bobl, the spread widened to around 35 basis points after the bonds were freed to trade.

BNG, the Dutch municipal financing institute, also tapped the five-year sector with DM250m of 5.625 per cent bonds via BZW. The spread of 28 basis points over Bobls was deemed aggressive and the gap widened to around 32 basis points, traders said.

Ford Credit issued DM250m of five-year bonds via Deutsche Bank. Its deal got a slightly more enthusiastic response from continental European retail investors for its higher spread of 62 basis points over Bobls, reflecting the borrower's lower credit rating of A1/A+.

In the dollar sector, TMCC's $750m issue of five-year bonds was a resounding success, being several times oversubscribed. Its yield spread over Treasuries, 22 basis points at launch, narrowed to 20 points by the close.

"It was a fairly priced deal, they had a great story to tell – everything about it was right," said one dealer. One of the lead managers said about 50 per cent of the bonds had gone into Asia and the rest into European accounts.

Meanwhile, a £100m 10-year issue for London Electricity, the top-rated UK electricity company, got a warm welcome, with a third of the bonds placed in continental Europe, according to HSBC Markets.

Bonds previously issued by electricity companies had been under pressure amid takeover activity and fears of rating downgrades, but the recent recovery of the sector helped this issue considerably.

Another £200m of five-year bonds for Germany's KfW, priced at 16 basis points over gilts, were slower off the mark but saw demand from continental European investors, said lead manager J.P. Morgan.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Toyota Motor Credit Corp.	750	6.125	99.483R	Oct.2000	0.25R	+22(6¼%-00)	Merril/Nomura/SBC Warburg
Advance Bank Australia‡	300	(a)	99.78R	Oct.2000	0.175R	-	CSFB/ Merrill Lynch Intl.
Province of Buenos Aires	100	11.50#	100.00R	Oct.1998	1.125R	+585(5⅞%-98)	Salomon Brothers Intl.
D-MARKS							
Korea Development Bank	500	5.625	99.968R	Oct.1999	0.225R	+34(6¾%-99)	Deutsche Bank
Landwirtschaftliche Rentenbank	300	5.75	100.00R	Oct.2000	0.25R	+33(5⅞%-00)	Nikko Bank (Deutschland)
BNG	250	5.625	99.74R	Nov.2000	0.25R	+28(5⅞%-00)	B.de Zoete Wedd(Deutsch.)
Ford Credit Europe	250	6.00	102.127	Nov.2000	2.50	-	Deutsche Bank
YEN							
Bayerische Landesbank*	10bn	(b)	100.40	Oct.2015	0.40	-	Nikko Europe
National Australia Bank(c)*	10bn	4.50	99.70	Oct.1998	0.375	-	Merrill Lynch International
Merrill Lynch & Co.*	10bn	(d)	100.20	Oct.1998	0.20	-	Merrill Lynch International
SWISS FRANCS							
Republic of Argentina	150	7.125	101.00	Nov.1998	1.50	-	Credit Suisse
STERLING							
KfW International Finance(s)	200	7.625	99.581R	Dec.2000	0.25R	+16(8%-00)	JP Morgan Securities
London Electricity(e)	100	8.625	99.246R	Oct.2005	0.35R	+55(8½%-05)	HSBC Markets
LUXEMBOURG FRANCS							
Kingdom of Sweden	3bn	zero	64.85	Dec.2002	1.375	-	Crédit Européen
Ippa Finance(l)	2bn	6.75	102.50	Dec.2002	1.875	-	Crédit Européen
AUSTRALIAN DOLLARS							
Kommuninvest*	100	zero	67.70	Oct.2000	0.25	-	Nikko Europe
CANADIAN DOLLARS							
Kredietbank Intl. Finance(l)	100	7.50	99.625R	Dec.2001	0.30R	+5(f)	ABN Amro Hoare Govett

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor +15bp. b) 5.70% in A$ or 5.10% in DM, issuers option. c) Principal repaid in US$. d) 1% to 19/10/96, 1.3% to 19/10/97 and 1.7% thereafter. e) Standard utility investor put option. f) Over interpolated yield. l) Long 1st coupon. s) Short 1st coupon.

Russia near agreement on London Club debt

By Graham Bowley

Russia and its commercial bank creditors have moved closer to an agreement on the rescheduling of the country's defaulted commercial loans, its so-called London Club debt.

Representatives from both sides, which met in London this week, are to recommend that Russia's $25bn-$30bn of commercial bank loans be restructured into loans with a 25-year maturity, according to banking sources close to the negotiations.

Past due interest on the loans is to be repackaged into 20-year bonds, they said. There would also be a seven-year grace period, during which no principal repayment would be due.

The recommendations are to be considered at a full meeting of Russian and bank negotiators "in a few weeks' time", according to a statement. Bankers said they expected a final decision to be made before the end of the year.

"This is a further sign of the seriousness of the Russians and the eagerness of the London Club to come to an agreement," said Mr David Boren, an emerging market analyst at Salomon Brothers in London.

The progress will be welcomed by foreign investors, who see the settlement of Russia's outstanding debt problems as an important measure of its transition to a market economy and as a signal of the authorities' commitment to attracting foreign investment.

US dollar and D-Mark-denominated debt trading in London rose slightly on the news.

"It's positive, but let's not get that excited," said one emerging markets analyst. "This is an outline of the deal that might or might not be approved."

FOA forms panel to advise users of derivatives

By Conner Middelmann

The UK Futures and Options Association (FOA) yesterday launched a specialist panel to advise users of derivatives – especially small and medium-sized enterprises – on how to improve their internal risk management controls.

DERIVATIVE INSTRUMENTS

The Operational Risk Review Panel comprises members from 15 leading firms of lawyers, accountants and consultants who have particular expertise in advising users of derivatives on operational and legal risk.

Each of the panel members will offer their services to market users for the purpose of reviewing their documentation, practices and procedures.

The service is aimed at unregulated corporate users of the derivatives market, although others – such as pension funds or insurance companies – will be able to use it for an independent appraisal of their control systems.

"The role of derivatives in the management of risk has received a lot of attention from regulators, the media and the industry, and there has been a proliferation of reports concerning what should be good practice," said Mr Michael Jenkins, chairman of the FOA, when introducing the new service. "But these reports are often fairly inaccessible to small and medium-sized end-users of derivatives," he added.

While the majority of market participants use derivatives to great effect in managing financial risk, he said, others "still have to learn the importance of establishing and maintaining proper policies, procedures and controls governing their use".

For this reason, said Mr Jenkins, the association decided to offer a practical "help-line" for end users of derivatives to establish whether their policies and procedures are appropriate.

An FOA committee has also drawn up a list of derivatives risk management guidelines which are due to be released before the end of the year, he said.

The cost of the service is likely to lie some 50 per cent below the fees usually charged by specialist consultants for detailed appraisals of companies' risk profiles.

However, the work of the panel will usually provide only a "health-check", rather than an in-depth examination.

The panel will advise users of derivatives on various aspects of operational risk, such as strategies; policies and procedures; management supervision; valuation of derivatives holdings and their sensitivity to underlying market movements; counterparty credit exposure; and trading and settlement procedures.

Legal risk assessment will include examining whether a company is able to enter derivatives transactions and can provide collateral or guarantees to back its obligations; contractual relationships; proper authorisations; and the participants' regulatory status.

The risk review panel includes law firms Ashurst Morris Crisp, Baker & McKenzie, Clifford Chance, Denton Hall, Freshfields, M.W. Cornish, Macfarlanes, Simmons & Simmons, and Stephenson Harwood; tax and accounting consultants Field Fisher Waterhouse, Moores Rowland, Price Waterhouse, and Touche Ross; and derivatives consultants Trevor Robinson Investment Management.

US Treasuries little changed in quiet trading

By Lisa Bransten in New York and Antonia Sharpe in London

US Treasury prices held steady in quiet trading yesterday as new data was mostly in line with economists' expectations and the dollar posted modest losses on profit-taking.

Near midday, the benchmark 30-year Treasury was $\frac{1}{16}$ lower at 105$\frac{7}{16}$ to yield 6.456 per cent and the two-year note was up $\frac{1}{16}$ at 100, yielding 5.733 per cent. Volumes were thin because of the Yom Kippur holiday.

Manufacturers orders rose 2.6 per cent in August, more than reversing July's 1.0 per cent decrease, but the figure failed to rattle the bond market as it matched median expectations. The index of leading economic indicators was also in line with economists forecasts, gaining 0.2 per cent in August.

GOVERNMENT BONDS

Most traders were more concerned with the data on September employment due on Friday than with figures on economic activity in August.

The dollar slipped against the yen and the D-Mark as currency traders took profits in advance of this weekend's meetings of the G7. In early trading it was changing hands at Y100.69 and DM1.4323 compared with Y101.35 and DM1.4375 late on Tuesday.

■ European government bond markets moved higher in the late afternoon but earlier in the day had shown little movement as traders awaited developments from the meeting of the International Monetary Fund in Washington.

Stories that the meeting would result in concerted intervention to support the dollar were discouraging participants from taking positions.

A further reduction in the repo rate by the Bundesbank failed to excite the German market which reopened after Tuesday's holiday. The central bank cut the lowest accepted rate to 4.05 per cent from 4.08 per cent, prompting a further steepening in the yield curve.

Ms Phyllis Reed at BZW said three-month rates in Germany were set to go below 4 per cent, which would cause the yield curve to steepen further. She said that since the curve was so linked to interest rate movements, it was difficult to see it flattening in the near term.

Mr Graham McDevitt, bond strategist at Paribas Capital Markets, said the market was focusing on the forthcoming auction of new bunds which could be as large as DM15bn.

■ Strong words from Mr Alain Juppé, the French prime minister, about the dangerous situation of the country's finances caused a softening in the French market, where the spread over bunds widened by about 4 basis points to 94 points.

Analysts said the market was pricing in any trouble which could be sparked by the forthcoming strike on October 10. On the Matif, the 10-year notional government bond eased 0.12 point to 115.40.

■ UK government bonds had an uninspiring day, with the December long gilt future rising ⅛ to 106$\frac{1}{32}$.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		7.500	07/05	92.9900	+0.060	8.57	8.66	9.19
Austria		6.875	06/05	99.5400	-0.230	6.93	7.03	6.98
Belgium		6.500	03/05	96.4300	+0.050	7.02	7.16	7.18
Canada *		8.750	12/05	107.1500	-0.250	7.72	7.95	8.13
Denmark		7.000	12/04	94.7000	+0.140	7.82	8.01	8.00
France	BTAN	7.750	04/00	103.7500	-0.130	6.73	6.82	6.56
	OAT	7.750	10/05	101.9600	-0.160	7.46	7.70	7.29
Germany Bund		6.875	05/05	102.2200	+0.060	6.55	6.67	6.69
Ireland		6.250	10/04	88.3500	+0.300	8.12	8.32	8.31
Italy		10.500	04/05	94.2200	+0.200	11.52†	11.40	11.25
Japan	No 129	6.400	03/00	120.5910	+0.340	1.48	1.66	2.18
	No 174	4.600	09/04	114.9700	+0.410	2.55	2.71	3.17
Netherlands		7.000	06/05	102.7400	+0.140	6.60	6.59	6.72
Portugal		11.875	02/05	103.7600	+0.100	11.18	11.24	11.29
Spain		10.000	02/05	95.0100	+0.010	10.85	10.95	10.90
Sweden		6.000	02/05	79.7290	-0.150	9.34	9.69	10.11
UK Gilts		8.000	12/00	102-13	+2/32	7.42	7.66	7.63
		8.500	12/05	103-14	+2/32	8.00	8.13	8.05
		9.000	10/08	107-00	+3/32	8.12	8.22	8.12
US Treasury *		6.500	08/05	102-26	+2/32	6.11	6.33	6.43
		6.875	08/25	105-15	-3/32	6.46	6.64	6.79
ECU (French Govt)		7.500	04/05	98.6400	+0.200	7.70	7.83	7.63

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest

		Treasury Bills and Bond Yields			
		One month	5.56	Two year	5.77
Prime rate	8¾	Two month	5.53	Three year	5.84
Broker loan rate	7½	Three month	5.49	Five year	5.93
Fed funds	5¾	Six month	5.59	10-year	6.12
Fed funds at intervention	-	One year	5.61	30-year	6.47

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	115.56	115.40	-0.12	115.64	115.23	96,689	99,542
Mar	114.92	114.72	-0.12	114.92	114.82	324	2,709
Jun	115.10	114.90	-0.12	115.10	115.00	296	1,245

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Nov	Calls Dec	Calls Mar	Puts Nov	Puts Dec	Puts Mar
114	-	-	-	0.20	0.55	-
115	0.82	-	-	0.49	0.90	-
116	0.36	0.76	-	0.95	1.36	-
117	0.10	0.41	-	-	-	-
118	-	0.17	0.04	-	-	-

Est. vol total, Calls 8,936 Puts 13,808. Previous day's open int., Calls 114,269 Puts 133,303.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.59	95.75	+0.16	95.82	95.57	99913	183448
Mar	95.15	95.18	+0.16	95.20	95.10	500	3530

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Calls Mar	Puts Nov	Puts Dec	Puts Jan	Puts Mar
9550	0.58	0.87	0.76	1.08	0.33	0.62	1.08	1.40
9600	0.33	0.61	0.56	0.86	0.58	0.86	1.38	1.68
9650	0.17	0.41	0.40	0.68	0.92	1.16	1.72	2.00

Est. vol. total. Calls 17745 Puts 9731. Previous day's open int. Calls 190984 Puts 152146

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	102.00	102.03	+0.24	102.31	101.52	49646	44945

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
10200	1.62	2.53	1.59	2.80
10250	1.39	2.30	1.86	3.07
10300	1.18	2.09	2.15	3.36

Est. vol. total, Calls 1020 Puts 3997. Previous day's open int., Calls 36031 Puts 36486

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	89.12	88.94	-0.06	89.15	88.74	43,393	31,926
Mar	-	88.88	-	-	-	-	8

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	106-10	106-09	+0-04	106-11	106-01	31054	101573
Mar	105-25	105-25	+0-03	105-25	105-25	32	69

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Calls Mar	Puts Nov	Puts Dec	Puts Jan	Puts Mar
106	0-58	1-23	1-26	1-60	0-40	1-05	1-40	2-10
107	0-28	0-56	0-63	1-32	1-10	1-38	2-13	2-46
108	0-11	0-33	0-42	1-08	1-57	2-15	2-56	3-22

Est. vol. total. Calls 2335 Puts 400. Previous day's open int., Calls 32139 Puts 25273

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	86.74	86.70	+0.16	86.76	86.56	1,070	7,351

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	114-26	114-24	-0-01	114-29	114-29	247,671	318,401
Mar	114-14	114-13	-	114-16	114-16	1,360	12,633
Jun	-	113-30	-	-	-	153	2,505

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	122.28	-	-	122.43	122.20	2208	0

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Oct 4	Day's change %	Tue Oct 3	Accrued interest	xd adj. ytd		Low coupon yield Oct 4	Oct 3	Yr. ago	Medium coupon yield Oct 4	Oct 3	Yr. ago	High coupon yield Oct 4	Oct 3	Yr. ago
1 Up to 5 years (23)	121.98	+0.05	121.91	1.90	8.38	5 yrs	7.53	7.54	8.78	7.51	7.53	8.86	7.61	7.63	9.03
2 5-15 years (21)	145.16	+0.12	144.99	1.74	9.78	15 yrs	8.16	8.18	8.75	8.18	8.20	8.90	8.27	8.29	9.12
3 Over 15 years (9)	160.63	+0.25	160.43	2.50	9.84	20 yrs	8.21	8.23	8.68	8.23	8.26	8.90	8.31	8.34	8.98
4 Irredeemables (6)	183.75	+0.44	182.95	3.59	8.63	Irred.†	8.30	8.34	8.74						
5 All stocks (59)	141.09	+0.12	140.92	1.96	9.35										

Index-linked							Inflation 5% Oct 4	Oct 3	Yr. ago	Inflation 10% Oct 4	Oct 3	Yr. ago
6 Up to 5 years (1)	192.92	+0.04	192.84	-0.52	8.37	Up to 5 yrs	3.06	3.07	4.11	1.98	1.99	3.00
7 Over 5 years (11)	185.34	+0.12	185.11	0.89	4.00	Over 5 yrs	3.66	3.67	3.89	3.47	3.47	3.70
8 All stocks (12)	185.38	+0.12	185.16	0.86	4.10							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Oct 4	Oct 3	Oct 2	Sep 29	Sep 28	Yr ago	High*	Low*
Govt. Secs. (UK)	93.44	93.25	93.25	93.00	92.98	90.16	95.51	90.22
Fixed Interest	111.74	111.57	111.52	111.54	111.63	106.96	114.66	108.77

* for 1995. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	Oct 3	Oct 2	Sep 29	Sep 28	Sep 27
Gilt Edged bargains	89.9	74.6	84.8	88.7	112.6
5-day average	90.1	89.2	90.2	91.1	89.4

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on October 4

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 5 97	1000	98¾	98⅞	+⅛	5.89
Abbey Natl Treasury 6½ 03	1000	99¼	99½	+⅛	6.62
ABN Amro Bank 7¼ 05	1000	103¼	103⅝		6.80
African Dev Bk 7½ 23	500	100⅞	101½	+⅛	7.29
Sweden 8 97	2500	106¼	106½		4.77
United Kingdom 7¼ 97	5500	104⅞	105		4.59
Volkswagen Intl Fin 7 03	1000	102⅛	102½	+⅛	6.60
World Bank 0 15	2000	25⅞	26⅛	-⅛	6.92
World Bank 5⅞ 03	3000	95⅞	96		6.54
Abbey Natl Treasury 8 03 £	1000	97⅞	98⅛	+⅛	8.36
Alliance Leics 11⅜ 97 £	100	106⅛	106½		7.11
British Land 8⅞ 23 £	150	91⅝	92⅛	+¼	8.98
Denmark 6¾ 98 £	800	98½	98¾		7.33
EIB 6 03 £	1000	99	99¼	+⅛	6.17
[illegible]					

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	1995 High	1995 Low
Shorts (Lives up to Five Years)						
[illegible]						

Notes	Yield Int	Yield Red	Price £	+ or -	1995 High	1995 Low
Over Fifteen Years						
[illegible]						

Notes	Yield (1)	Yield (2)	Price £	+ or -	1995 High	1995 Low
Index-Linked						
[illegible]						

Other Fixed Interest

[illegible]

CONVERTIBLE BONDS

[illegible]

FLOATING RATE NOTES

[illegible]

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CURRENCIES AND MONEY

MARKETS REPORT

Dollar gives up gains as investors take profits

By Philip Gawith

Foreign exchanges yesterday continued the largely trendless trading pattern seen in recent days as markets looked forward to the weekend G7 meeting in Washington to provide fresh trading direction.

The dollar succumbed to profit-taking, handing back the gains made on Tuesday. After touching intra-day highs around Y101.20 and DM1.4380, it slipped back to around Y100.8 and DM1.4328 in early afternoon New York.

The dollar's losses were attributed to comments from Mr Eisuke Sakakibara, head of the international division of Japan's Ministry of Finance, that central bank buying could not sustain the dollar for long. This undermined the hopes, harboured by some in the market, that a renewed commitment by the G7 to a stronger dollar will provide the excuse for the next leg in the dollar rally.

There was little action in Europe to enthuse traders. Mr Alain Juppe, the French prime minister, repeated his warning that French public finances were in "peril", while Mr Lamberto Dini, his Italian counterpart, also re-iterated his expectation that the lira would remain stable.

The French franc closed slightly lower against the D-Mark, at FFr3.454, from FFr3.448, while the lira was firmer, at L1,121, from L1,126.

In Germany, the repo rate fell to 4.05 per cent from 4.08 per cent while the Belgian central bank trimmed its central rate to 4.05 per cent from 4.10 per cent.

Sterling had a quiet day, closing little changed at DM2.2717, from DM2.275, and at $1.5817, from $1.5807.

■ Pound in New York

Oct 4	---Latest---	-- Prev. close --
£ spot	1.5840	1.5832
1 mth	1.5828	1.5820
3 mth	1.5810	1.5802
1 yr	1.5724	1.5719

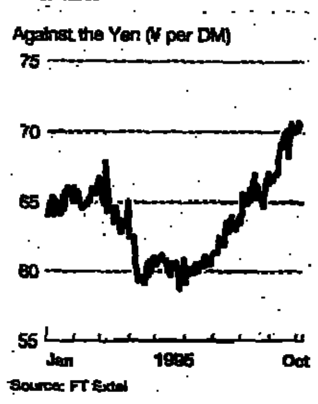
■ Optimism about the dollar has clearly receded from the high-water mark reached a few weeks back, although the balance of market opinion would still appear to be on the bullish side.

That said, the polarity of views among currency forecasters is now more resemblant of the position a year ago, than one month ago when there was barely a dissenting view to be heard.

This point emerges clearly from the latest currency forecasts made by Citibank and UBS, who have returned to their long-held positions as, respectively, bellwethers of bearish and bullish opinion on the dollar. Citibank's twelve month forecast is for DM1.30 and Y85; UBS is forecasting DM1.60 and Y112.

Mr Neil MacKinnon, Citibank's chief currency strategist, goes further, repeating a previously stated view that "there is a high probability of a dollar collapse over the next two to three years which will take the US dollar down to parity against the D-Mark."

D-Mark



Source: FT Extel

On a shorter term perspective, some technical analysts are also bearish about the dollar. Mr Chris Dunne of Forexia (U.K) says there is a 70 per cent chance of the dollar falling to DM1.3850 over the next month. "A lot of short and medium term indicators show that the current dollar strength is just a dead-cat bounce," said Mr Dunne.

On the policy front, Mr Jeremy Hawkins, chief economist at the Bank of America in London, described Mr Sakakibara's comments as "potentially the first chink in the armour of G3 commitment to the dollar." If, as reports indicated, he was happy with the dollar at Y101.5, this meant the market could no longer rely on central bank support for the dollar. This raised the question, said Mr Hawkins, of "who is going to fund the US current account deficit?"

Dollar bulls hope that in this event, the vacuum will be filled by the outflow from Japan of private investment funds. Mr Chertkow, however, concedes that "we have not seen Japanese life companies come back into the market." On the other hand, he says there has not been much selling pressure either.

The IMF, in its semi-annual World Economic Outlook, offered some cheer for the dollar, saying it may still be "too weak", while some fall in the D-Mark against European currencies was said to be warranted. Mr Chertkow said with the Bundesbank not thought to be happy with the D-Mark above Y70, what was needed was a generalised move into the dollar – so far absent – rather than simply a move in dollar/yen.

■ The Bank of England provided £467m liquidity towards clearing a £650m money market shortage. Three month LIBOR was unchanged at 6¾ per cent.

■ OTHER CURRENCIES

Oct 4	£	$
Czech Rp	41.8702 - 41.9125	26.4800 - 26.4900
Hungary	206.837 - 207.047	130.810 - 130.860
Iran	4746.80 - 4743.80	3000.00 - 3000.00
Kuwait	0.4742 - 0.4748	0.2999 - 0.3001
Poland	3.8716 - 3.8772	2.4485 - 2.4505
Russia	7115.95 - 7116.19	4497.50 - 4500.50
U.A.E.	5.8085 - 5.8109	3.6722 - 3.6727

POUND SPOT FORWARD AGAINST THE POUND

Oct 4		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. index
Europe													
Austria	(Sch)	15.9874	-0.0227	779 - 968	16.0332	15.9615	15.957	2.3	15.8984	2.2	-	-	106.6
Belgium	(BFr)	46.7179	-0.0535	897 - 461	46.8520	46.4830	46.6229	2.4	46.4329	2.4	45.6979	2.2	109.1
Denmark	(DKr)	8.8160	-0.0064	104 - 216	8.8363	8.8005	8.8084	1.0	8.7918	1.1	8.7293	1.0	109.7
Finland	(FM)	6.8054	-0.008	973 - 134	6.8240	6.7770	6.801	0.8	6.7929	0.7	-	-	88.3
France	(FFr)	7.8480	+0.0036	443 - 517	7.8598	7.8295	7.8427	0.8	7.8314	0.8	7.7747	0.9	109.8
Germany	(DM)	2.2717	-0.0033	704 - 730	2.2800	2.2616	2.2666	2.7	2.2572	2.6	2.2162	2.4	111.6
Greece	(Dr)	369.912	-0.672	716 - 108	371.237	367.499	-	-	-	-	-	-	67.5
Ireland	(I£)	0.9803	-0.0003	794 - 812	0.9817	0.9792	0.9795	1.0	0.9782	0.9	0.9748	0.5	97.9
Italy	(L)	2546.77	-14.74	476 - 877	2561.51	2544.38	2554.02	-3.4	2569.92	-3.5	2637.07	-3.5	70.1
Luxembourg	(LFr)	46.7179	-0.0535	897 - 461	46.8520	46.4830	46.6229	2.4	46.4329	2.4	45.6979	2.2	109.1
Netherlands	(Fl)	2.5441	-0.0044	427 - 454	2.5529	2.5392	2.5376	3.0	2.5267	2.7	2.4805	2.5	109.1
Norway	(NKr)	9.9741	-0.0101	679 - 802	10.0030	9.9253	9.9617	1.5	9.9398	1.4	9.8843	1.1	99.3
Portugal	(Es)	237.809	-0.537	654 - 963	238.523	236.860	238.349	-2.7	239.569	-3.0	-	-	95.4
Spain	(Pta)	196.107	-0.415	990 - 224	196.835	195.911	196.607	-3.1	197.547	-2.9	201.947	-3.0	80.8
Sweden	(SKr)	11.0071	-0.0227	977 - 165	11.0778	10.9693	11.0093	-0.2	11.0138	-0.2	11.0372	-0.3	82.9
Switzerland	(SFr)	1.8265	-0.0053	255 - 274	1.8361	1.8227	1.8194	4.7	1.8075	4.2	1.7546	3.9	116.3
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	85.2
Ecu	-	1.2270	-0.0012	262 - 277	1.2306	1.2241	1.2259	1.1	1.2237	1.1	1.2143	1.0	-
SDR†	-	1.06460	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5815	+0.0011	809 - 820	1.5843	1.5775	-	-	-	-	-	-	-
Brazil	(R$)	1.5154	+0.001	148 - 159	1.5181	1.5114	-	-	-	-	-	-	-
Canada	(C$)	2.1058	+0.0047	047 - 069	2.1097	2.0975	2.1049	0.5	2.1046	0.2	2.1098	-0.2	85.9
Mexico	(New Peso)	10.3127	+0.0147	936 - 318	10.3309	10.2898	-	-	-	-	-	-	-
USA	($)	1.5817	+0.001	812 - 822	1.5845	1.5775	1.5805	0.9	1.5787	0.8	1.5702	0.7	93.0
Pacific/Middle East/Africa													
Australia	(A$)	2.0693	+0.0048	677 - 709	2.0727	2.0677	2.0706	-0.8	2.0735	-0.8	2.0862	-0.9	87.6
Hong Kong	(HK$)	12.2297	+0.0105	254 - 339	12.2509	12.1860	12.2262	0.3	12.2137	0.5	12.1801	0.4	-
India	(Rs)	53.4694	+0.0039	287 - 100	53.6610	53.4270	-	-	-	-	-	-	-
Israel	(Shk)	4.7670	-0.0005	618 - 722	4.7728	4.7613	-	-	-	-	-	-	-
Japan	(Y)	159.831	-0.297	701 - 960	160.860	159.170	158.916	6.9	157.306	6.3	150.981	5.9	142.5
Malaysia	(M$)	3.9975	+0.0038	954 - 995	4.0029	3.9876	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.4007	-0.0061	987 - 027	2.4032	2.3965	2.4066	-3.0	2.4159	-2.5	2.4415	-1.7	101.2
Philippines	(Peso)	41.0530	-0.0281	163 - 897	41.1010	40.9695	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.9324	+0.0042	303 - 344	5.9425	5.9166	-	-	-	-	-	-	-
Singapore	(S$)	2.2655	+0.0004	640 - 670	2.2690	2.2616	-	-	-	-	-	-	-
South Africa	(R)	5.7886	-0.0012	856 - 916	5.7989	5.7831	-	-	-	-	-	-	-
South Korea	(Won)	1213.48	-1.01	294 - 402	1215.47	1211.57	-	-	-	-	-	-	-
Taiwan	(T$)	42.4805	+0.1965	568 - 042	42.5454	42.2584	-	-	-	-	-	-	-
Thailand	(Bt)	39.7840	+0.0264	435 - 844	39.8260	39.6900	-	-	-	-	-	-	-

† Rates for Oct 3. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Oct 4		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan index
Europe													
Austria	(Sch)	10.1077	-0.0211	049 - 105	10.1500	10.0910	10.0926	1.8	10.0625	1.8	9.9532	1.5	106.6
Belgium	(BFr)	29.5385	-0.0535	280 - 450	29.8400	29.4100	29.4955	1.7	29.4165	1.8	29.1185	1.4	108.6
Denmark	(DKr)	5.5738	-0.0077	720 - 755	5.5950	5.5633	5.5746	-0.2	5.5703	0.3	5.5798	-0.1	108.9
Finland	(FM)	4.3026	-0.0079	988 - 063	4.3182	4.2850	4.3022	0.1	4.3011	0.1	4.2966	0.1	87.4
France	(FFr)	4.9618	-0.001	610 - 625	4.9720	4.9525	5.0472	-20.6	4.9571	0.4	4.9448	0.3	109.5
Germany	(DM)	1.4363	-0.003	359 - 366	1.4435	1.4338	1.4341	1.8	1.4297	1.8	1.4112	1.7	110.8
Greece	(Dr)	233.870	-0.58	820 - 920	235.060	232.550	235.595	-8.9	238.795	-8.4	252.27	-7.9	66.9
Ireland	(I£)	1.6135	+0.0015	125 - 145	1.6161	1.6105	1.6137	-0.1	1.6138	-0.1	1.6202	-0.4	-
Italy	(L)	1610.15	-10.39	940 - 090	1622.50	1608.20	1616.9	-5.0	1628.95	-4.7	1686.15	-4.7	69.4
Luxembourg	(LFr)	29.5385	-0.0535	280 - 450	29.6400	29.4100	29.4955	1.7	29.4165	1.8	29.1185	1.4	108.6
Netherlands	(Fl)	1.6085	-0.0038	081 - 088	1.6162	1.6056	1.6058	2.0	1.6008	1.9	1.5806	1.7	108.4
Norway	(NKr)	6.3059	-0.0106	040 - 078	6.3338	6.2755	6.3022	0.7	6.2959	0.6	6.2859	0.3	98.3
Portugal	(Es)	150.350	-0.44	300 - 400	151.050	149.760	150.815	-3.7	151.825	-3.9	156.45	-4.1	95.3
Spain	(Pta)	123.985	-0.345	950 - 020	124.500	123.860	124.365	-3.7	125.135	-3.7	128.68	-3.7	80.4
Sweden	(SKr)	6.9591	-0.0189	553 - 628	7.0152	6.9435	6.9765	-3.0	7.0131	-3.1	7.1816	-3.2	82.2
Switzerland	(SFr)	1.1548	-0.0041	545 - 550	1.1627	1.1512	1.1512	3.7	1.1451	3.4	1.1173	3.2	115.4
UK	(£)	1.5817	+0.001	812 - 822	1.5845	1.5775	1.5805	0.9	1.5787	0.8	1.5702	0.7	84.8
Ecu	-	1.2892	+0.0022	888 - 895	1.2913	1.2844	1.2898	-0.4	1.2903	-0.3	1.2926	-0.3	-
SDR†	-	0.68600	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	1.0000	0.9997	-	-	-	-	-	-	-
Brazil	(R$)	0.9581	-	580 - 581	0.9581	0.9580	-	-	-	-	-	-	-
Canada	(C$)	1.3314	+0.0021	311 - 316	1.3338	1.3275	1.3318	-0.4	1.3332	-0.5	1.3434	-0.9	85.1
Mexico	(New Peso)	6.5200	+0.005	100 - 300	6.5300	6.5000	6.5222	-0.4	6.5254	-0.3	6.5303	-0.2	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	94.1
Pacific/Middle East/Africa													
Australia	(A$)	1.3082	+0.0022	077 - 089	1.3114	1.3071	1.31	-1.7	1.3136	-1.7	1.3333	-1.9	88.9
Hong Kong	(HK$)	7.7320	+0.0015	317 - 322	7.7325	7.7310	7.7336	-0.2	7.7355	-0.2	7.7557	-0.3	-
India	(Rs)	33.8050	-0.02	900 - 200	33.9800	33.7900	33.955	-5.3	34.26	-5.4	35.73	-5.7	-
Israel	(Shk)	3.0138	-0.0023	115 - 162	3.0178	3.0113	-	-	-	-	-	-	-
Japan	(Y)	101.050	-0.255	000 - 100	101.750	100.690	100.555	5.9	99.635	5.6	95.76	5.2	142.3
Malaysia	(M$)	2.5273	+0.0007	268 - 278	2.5300	2.5260	2.5273	0.0	2.5276	-0.1	2.5353	-0.3	-
New Zealand	(NZ$)	1.5177	-0.0048	170 - 186	1.5208	1.5167	1.5218	-3.2	1.5293	-3.1	1.554	-2.4	-
Philippines	(Peso)	25.9550	-0.035	400 - 700	25.9700	25.9400	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7506	+0.0001	505 - 507	3.7507	3.7505	3.7511	-0.2	3.752	-0.1	3.7551	-0.1	-
Singapore	(S$)	1.4323	-0.0007	318 - 328	1.4342	1.4314	1.4288	2.9	1.4225	2.7	1.3978	2.4	-
South Africa	(R)	3.6598	-0.0032	590 - 605	3.6635	3.6588	3.6951	-8.3	3.7351	-8.2	3.9663	-8.4	-
South Korea	(Won)	767.200	-1.15	100 - 300	768.800	767.000	770.2	-4.7	773.7	-3.4	792.2	-3.3	-
Taiwan	(T$)	26.8575	+0.1065	510 - 640	26.8720	26.7490	26.8775	-0.9	26.9175	-0.9	-	-	-
Thailand	(Bt)	25.1400	-	350 - 450	25.1700	25.1300	25.2275	-4.2	24.875	4.2	26.095	-3.8	-

† SDR rate per $ for Oct 3. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Oct 3. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

October 4	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	4	4 1/8	4 1/8	4¼	4⅜	6.00	3.50	-
week ago	4 1/8	4 1/8	4¼	4⅜	4½	6.00	3.50	-
France	5⅞	6	6⅛	6¼	6⅜	5.00	-	6.15
week ago	5⅜	6	6⅜	6⅜	6⅝	5.00	-	6.15
Germany	4⅛	4 1/32	4 1/32	4 1/32	4	5.50	3.50	4.05
week ago	4	4 1/16	4	4	4 1/16	5.50	3.50	4.08
Ireland	6 7/16	5 15/16	5⅞	5⅞	6⅛	-	-	6.25
week ago	5¼	5⅞	5⅞	6⅛	6⅜	-	-	6.25
Italy	10⅜	10⅜	10⅜	10 11/16	10¾	-	9.00	10.38
week ago	10¼	10 5/16	10½	10⅝	10¾	-	9.00	10.29
Netherlands	3⅞	3⅞	3⅞	3⅞	4 1/16	-	3.50	3.80
week ago	4	3⅞	3⅞	3⅞	3 15/16	-	3.50	-
Switzerland	2 1/16	2⅜	2⅜	2 5/16	2 5/16	5.00	2.00	-
week ago	2¼	2¼	2⅜	2⅜	2½	5.00	2.00	-
US	5¾	5⅞	5 13/16	5 13/16	6 1/16	-	5.25	-
week ago	5¾	5⅞	5⅞	5⅞	5⅞	-	5.25	-
Japan	11/32	½	½	½	½	-	0.50	-
week ago	15/32	½	½	17/32	⅝	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5¾	5 13/16	5 13/16	5 13/16	-	-	-
week ago	-	5⅞	5⅞	5 13/16	5 13/16	-	-	-
US Dollar CDs	-	5.62	5.62	5.63	5.71	-	-	-
week ago	-	5.62	5.46	5.53	5.64	-	-	-
ECU Linked Ds	-	5 15/16	5 15/16	5 15/16	5 13/16	-	-	-
week ago	-	5 15/16	5½	5½	5 15/16	-	-	-
SDR Linked Ds	-	3 25/32	3 27/32	3 27/32	3 27/32	-	-	-
week ago	-	3 25/32	3 25/32	3 31/32	3 27/32	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Oct 4	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	4 3/16 - 4 1/16	4 3/16 - 4 1/16	4 3/16 - 4 1/16	4 5/16 - 4 3/16	4 5/16 - 4 3/16	4 7/16 - 4 5/16
Danish Krone	6½ - 6¼	5 7/8 - 5 5/8	5 11/16 - 5½	5¾ - 5 9/16	5¾ - 5½	5 29/32 - 5 21/32
D-Mark	4⅛ - 4	4⅛ - 4	4⅛ - 4	4 1/16 - 3 15/16	4 1/16 - 3 15/16	4⅛ - 4
Dutch Guilder	3 15/16 - 3 13/16	3 15/16 - 3 13/16	3 15/16 - 3 13/16	3 31/32 - 3⅞	3 31/32 - 3 29/32	4 1/16 - 3 31/32
French Franc	6 - 5½	5 15/16 - 5 11/16	6 1/16 - 6 13/16	6¼ - 6⅛	6 5/16 - 6 3/16	6¼ - 6⅛
Portuguese Esc.	8 15/16 - 8 13/16	8 13/16 - 8 11/16	9 1/16 - 8 15/16	9 5/16 - 9 3/16	9½ - 9⅜	9¾ - 9½
Spanish Peseta	9½ - 9⅜	9½ - 9⅜	9 13/32 - 9 9/32	9 7/16 - 9 5/16	9 17/32 - 9 13/32	9 21/32 - 9 17/32
Sterling	6¾ - 6⅝	6 13/16 - 6 9/16	6¾ - 6 11/16	6¾ - 6 11/16	6 13/16 - 6⅝	6 15/16 - 6⅝
Swiss Franc	2 3/16 - 2 1/16	2 5/16 - 2 3/16	2⅜ - 2¼	2 7/16 - 2 5/16	2 7/16 - 2 5/16	2 7/16 - 2 5/16
Can. Dollar	6 3/16 - 6	6 3/16 - 6	6 3/16 - 6 1/16	6 5/16 - 6 3/16	6 7/16 - 6 5/16	6 9/16 - 6 7/16
US Dollar	5⅞ - 5¾	5⅞ - 5¾	5 15/16 - 5 13/16	5 15/16 - 5 13/16	5 15/16 - 5 13/16	5 15/16 - 5 13/16
Italian Lira	8 9/16 - 8 3/16	10 5/16 - 10 3/16	10 11/32 - 10 7/32	10 9/16 - 10 7/16	10 23/32 - 10 19/32	10 23/32 - 10 19/32
Yen	9/16 - 17/32	½ - ⅜	⅜ - ¼	⅜ - ¼	⅜ - ¼	⅜ - ¼
Asian $Sing	9 3/16 - 9 1/16	3 - 2¾	2⅞ - 2¾	2 15/16 - 2 13/16	3 - 2⅞	3⅛ - 3

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate (FFr5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.64	93.59	-0.03	93.69	93.56	35,449	43,310
Mar	94.06	94.04	+0.01	94.10	93.98	9,548	28,813
Jun	94.27	94.27	-	94.33	94.21	3,729	20,517

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.03	96.03	-	96.04	96.02	14437	147274
Mar	96.10	96.09	-	96.10	96.08	13172	157638
Jun	95.98	95.99	+0.01	96.00	95.96	8914	122463
Sep	95.75	95.77	+0.01	95.79	95.75	6283	85142

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	89.49	89.51	+0.06	89.55	89.45	6266	35526
Mar	89.82	89.79	+0.05	89.83	89.75	1623	23463
Jun	90.00	89.91	+0.03	90.00	89.89	770	12144
Sep	89.92	89.90	+0.03	89.92	89.87	171	7656

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	97.63	97.64	-	97.66	97.61	3425	25349
Mar	97.64	97.69	+0.02	97.71	97.64	1575	13156
Jun	97.53	97.56	+0.04	97.59	97.52	395	4217
Sep	97.33	97.38	+0.04	97.38	97.33	507	2393

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.41	94.40	+0.02	94.41	94.38	776	7703
Mar	94.50	94.50	+0.02	94.52	94.49	409	4279
Jun	94.44	94.47	+0.03	94.49	94.44	105	2654
Sep	94.25	94.27	+0.04	94.27	94.25	139	1424

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
8950	0.41	0.74	0.92	0.40	0.45	0.51
8975	0.30	0.60	0.78	0.54	0.56	0.62
9000	0.19	0.47	0.64	0.68	0.68	0.73

Est. vol. total, Calls 400 Puts 400. Previous day's open int., Calls 12174 Puts 5623

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Oct 4		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.87	16.80	4.863	2.098	5452	5.445	21.35	509.0	419.7	23.57	3.911	2.140	4.508	3.386	342.0	2.626
Denmark	(DKr)	52.99	10	8.902	2.577	1.112	2889	2.886	11.31	269.7	222.4	12.49	2.072	1.134	2.389	1.794	181.3	1.392
France	(FFr)	59.53	11.23	10	2.895	1.249	3245	3.242	12.71	303.0	249.9	14.03	2.328	1.274	2.683	2.016	203.6	1.563
Germany	(DM)	20.56	3.880	3.454	1	0.431	1121	1.120	4.390	104.7	86.31	4.846	0.804	0.440	0.927	0.696	70.33	0.540
Ireland	(I£)	47.67	8.996	8.008	2.318	1	2599	2.596	10.18	242.7	200.1	11.23	1.864	1.020	2.149	1.614	163.1	1.252
Italy	(L)	1.834	0.346	0.308	0.089	0.038	100.	0.100	0.392	9.336	7.699	0.432	0.072	0.039	0.083	0.062	6.274	0.048
Netherlands	(Fl)	18.36	3.465	3.085	0.893	0.385	1001	1	3.921	93.47	77.08	4.328	0.718	0.393	0.828	0.622	62.81	0.482
Norway	(NKr)	46.84	8.839	7.868	2.278	0.983	2554	2.551	10	238.4	196.6	11.04	1.832	1.003	2.111	1.586	160.2	1.230
Portugal	(Es)	19.65	3.707	3.300	0.955	0.412	1071	1.070	4.194	100.	82.46	4.630	0.768	0.421	0.886	0.665	67.20	0.516
Spain	(Pta)	23.82	4.496	4.002	1.159	0.500	1299	1.297	5.086	121.3	100.	5.614	0.932	0.510	1.074	0.807	81.49	0.626
Sweden	(SKr)	42.43	8.007	7.128	2.064	0.890	2313	2.311	9.059	216.0	178.1	10	1.659	0.908	1.913	1.437	145.1	1.114
Switzerland	(SFr)	25.57	4.825	4.296	1.244	0.536	1394	1.392	5.459	130.2	107.3	6.026	1	0.547	1.153	0.866	87.47	0.672
UK	(£)	46.72	8.816	7.848	2.272	0.980	2547	2.544	9.974	237.8	196.1	11.01	1.827	1	2.106	1.582	159.8	1.227
Canada	(C$)	22.18	4.186	3.726	1.079	0.465	1209	1.208	4.736	112.9	93.11	5.228	0.868	0.475	1	0.751	75.88	0.583
US	($)	29.53	5.573	4.961	1.436	0.619	1610	1.608	6.305	150.3	124.0	6.960	1.155	0.632	1.331	1	101.0	0.776
Japan	(Y)	29.24	5.517	4.911	1.422	0.613	1594	1.592	6.242	148.8	122.7	6.890	1.143	0.626	1.318	0.990	100.	0.768
Ecu		38.08	7.185	6.396	1.852	0.799	2076	2.073	8.129	193.8	159.8	8.973	1.489	0.815	1.716	1.289	130.2	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6980	0.6984	-0.0007	0.6995	0.6953	26,396	48,337
Mar	0.7016	0.7016	-0.0008	0.7016	0.7029	185	2,360
Jun	-	0.7050	-	-	-	2	82

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.9980	1.0001	+0.0017	1.0039	0.9940	22,894	58,277
Mar	1.0170	1.0142	+0.0017	1.0170	1.0140	243	8,239
Jun	-	1.0259	-	-	-	53	309

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8703	0.8716	+0.0003	0.8737	0.8665	13,165	30,438
Mar	0.8805	0.8800	+0.0013	0.8809	0.8785	39	1,892
Jun	-	0.8870	-	0.8875	-	12	47

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.5772	1.5786	-0.0022	1.5794	1.5780	5,709	31,070
Mar	-	1.5740	-	-	1.5740	2	119
Jun	-	1.5780	-	-	-	14	10

UK INTEREST RATES

LONDON MONEY RATES

Oct 4	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7½ - 6	6 13/16 - 6 5/16	6¾ - 6⅝	6 13/16 - 6 11/16	6¾ - 6⅝	6¾ - 6⅝
Sterling CDs	-	-	6 11/16 - 6⅝	6 11/16 - 6⅝	6 23/32 - 6 19/32	6 25/32 - 6 19/32
Treasury Bills	-	-	6 19/32 - 6 15/32	6 19/32 - 6 15/32	-	-
Bank Bills	-	-	6 11/16 - 6⅝	6⅝ - 6 9/16	6 17/32 - 6 15/32	-
Local authority deps.	6 13/16 - 6 11/16	6 11/16 - 6 9/16	6¾ - 6⅝	6¾ - 6⅝	6¾ - 6⅝	6¾ - 6⅝
Discount Market deps	6¾ - 6½	6¾ - 6⅝	-	-	-	-

UK clearing bank base lending rate 6¾ per cent from February 2, 1995

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	3	5¾	5¾	6	6¼

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc.
Certs of Tax dep. under £100,000 is 2½pc. Ave. tender rate of discount 6.5302pc. ECGD fixed rate Stlg. Export Finance. Make up day Sep 29, 1995. Agreed rate for period Oct 25, 1995 to Nov 25, 1995, Schemes II & III 8.04pc. Reference rate for period Sep 1, 1995 to Sep 29, 1995, Schemes IV & V 6.795pc. Finance House Base Rate 7pc from October 1, 1995

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.47	93.45	-0.02	93.47	93.43	9097	103758
Mar	93.58	93.55	-0.01	93.58	93.51	11550	60398
Jun	93.53	93.52	-0.01	93.54	93.48	7702	47309
Sep	93.34	93.34	+0.01	93.36	93.31	4564	34346
Dec	93.12	93.12	+0.01	93.14	93.10	2846	26560

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9325	0.28	0.48	0.58	0.08	0.18	0.31
9350	0.13	0.32	0.43	0.18	0.27	0.41
9375	0.05	0.20	0.31	0.35	0.40	0.54

Est. vol. total, Calls 7070 Puts 1459. Previous day's open int., Calls 132090 Puts 118965

EMS EUROPEAN CURRENCY UNIT RATES

Oct 4	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.15214	2.10546	+0.00015	-2.17	4.75	18
Belgium	39.3960	38.6657	+0.0068	-1.85	4.42	14
Germany	1.91007	1.88043	+0.00015	-1.55	4.09	15
Austria	13.4383	13.2331	+0.001	-1.53	4.07	11
Spain	162.493	162.321	-0.152	-0.11	2.59	1
Denmark	7.28580	7.29527	+0.00401	0.13	2.35	-1
Portugal	195.792	196.788	-0.121	0.51	1.96	-3
France	6.40608	6.49283	+0.00189	1.35	1.11	-11
Ireland	0.792214	0.811857	+0.001911	2.48	0.00	-17
NON ERM MEMBERS						
Greece	292.867	306.187	-0.137	4.55	-1.98	-
Italy	2106.15	2111.22	-12.92	0.24	2.23	-
UK	0.786652	0.828243	+0.002623	5.29	-2.87	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Oct	Nov	Dec	PUTS Oct	Nov	Dec
1.540	4.19	4.54	5.06	-	0.50	1.04
1.550	3.25	3.76	4.35	0.04	0.72	1.34
1.560	2.44	3.05	3.71	0.18	0.93	1.60
1.570	1.67	2.46	3.12	0.42	1.29	2.10
1.580	1.05	1.90	2.85	0.79	1.73	2.33
1.590	0.59	1.44	2.59	1.34	2.28	2.57

Previous day's vol., Calls N/A Puts N/A. Prev. day's open int., Calls N/A Puts N/A

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.21	94.20	-	94.21	94.20	66,095	418,071
Mar	94.37	94.37	+0.01	94.38	94.36	70,951	361,984
Jun	94.33	94.34	+0.02	94.34	94.32	49,542	244,974

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.74	94.75	+0.02	94.75	94.74	1,337	14,184
Mar	94.84	94.83	+0.01	94.84	94.83	145	3,662
Jun	-	94.81	+0.03	-	-	7	145

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Oct	Nov	Dec	Mar	PUTS Oct	Nov	Dec	Mar
9600	0.06	0.09	0.12	0.24	0.03	0.06	0.09	0.15
9625	0	0.02	0.04	0.12	0.22	0.24	0.26	0.28
9650	0	0	0.01	0.05	0.47	0.47	0.48	0.46

Est. vol. total, Calls 9290 Puts 4813. Previous day's open int., Calls 229948 Puts 221074

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	Mar	Jun	PUTS Dec	Mar	Jun
9750	0.20	0.30	0.31	0.08	0.11	0.25
9775	0.06	0.15	0.18	0.17	0.21	0.37
9800	0.03	0.07	0.09	0.39	0.36	0.53

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 5125 Puts 800

BASE LENDING RATES

	%		%		%
Adam & Company	6.75	Duncan Lawrie	6.75	* Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	10
Allied Trust Bank	6.75	Exeter Bank Limited	7.75	Royal Bk of Scotland	6.75
AIB Bank	6.75	Financial & Gen Bank	7.50	●Singer & Friedlander	6.75
●Henry Ansbacher	6.75	●Robert Fleming & Co	6.75	●Smith & Williamson Secs.	6.75
Bank of Baroda	6.75	Girobank	6.75	TSB	6.75
Banco Bilbao Vizcaya	6.75	●Guinness Mahon	6.75	United Bank of Kuwait	6.75
Bank of Cyprus	6.75	Habib Bank AG Zurich	6.75	Unity Trust Bank Plc	6.75
Bank of Ireland	6.75	●Hambros Bank	6.75	Western Trust	6.75
Bank of India	6.75	Heritable & Gen Inv Bk	6.75	Whiteaway Laidlaw	6.75
Bank of Scotland	6.75	●Hill Samuel	6.75	Yorkshire Bank	6.75
Barclays Bank	6.75	C. Hoare & Co	6.75		
Brit Bk of Mid East	6.75	Hongkong & Shanghai	6.75	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	6.75	Julian Hodge Bank	6.75	* In administration	
Citibank NA	6.75	●Leopold Joseph & Sons	6.75		
Clydesdale Bank	6.75	Lloyds Bank	6.75		
The Co-operative Bank	6.75	Meghraj Bank Ltd	6.75		
Coutts & Co	6.75	Midland Bank	6.75		
Credit Lyonnais	6.75	* Mount Banking	6.75		
Cyprus Popular Bank	6.75	NatWestminster	6.75		
		●Rea Brothers	6.75		

LONDON SHARE SERVICE

BANKS, MERCHANT

Notes	Price	+ or -	1995 high	1995 low	Mkt Cap£m	Yld Gr's	P/E
Barings 8pc Cm 2nd Pfd	60½	—	98	50¼	6.31	19.8	–
9¾pc Non-Cum Pf	4¾	—	118½	3	1.90	–	–
Cater Allen	486	—	528	418	150.1	7.4	7.4
Close Bros	318xr	—	*340½	216¼	387.8	3.5	ϕ
Gerrard & Nat	482	—	490	395	228.8	8.2	14.5
Hambros	284	+1	289	180	381.3	4.8	51.4
7½pc Cv Pf	106	—	112	94	134.0	9.0	–
Joseph (L)	436	—	483	353	23.2	5.0	24.5
King & Shaxson	137	—	145	85	38.2	8.2	10.6
Rea Brothers	48	-1	67	46	22.4	2.7	18.4
Schroders	1330xd	-15	*1478	906¼	2,020	1.3	19.1
N/V	1115xd	-8	*1150	823¼	460.5	1.8	15.9
Singer & Fried	109xd	-1	119	81	212.4	4.3	11.2
Union	115	—	121	70	38.8	8.3	–
Wintrust	285	—	285	200	24.1	4.8	16.9

BANKS, RETAIL

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OIL, INTEGRATED - Cont.

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

	Notes	Price	+ or -	1995 high	1995 low	Mkt Cap£m	Yld Gr's	P/E
BAT Inds.	♣†v☐	544xd	+15	544	405	16,798	5.2	12.7
12¼pc Ln '03/08		£121⅞	+⅛	£124⅛	£115⅜	893.2	10.1	–

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

	Notes	Price £	+ or -	1995 high	1995 low	Mkt Cap£m	Yld Gr's
Bk Montreal		14⅞	+⅛	14⅞	10⅞	3,813	4.4
Bk Nova Scot		13⅞xd	+⅛	14⅛	10⅞	3,116	4.3
BC Gas	♥	718¼p	+16¼	718¼p	580½p	–	4.0
BCE		21½	+⅛	21½	18⅞	6,691	6.0
Barrick Gold		16⅞	–⅛	17⅞	12⅞	5,883	0.5
Brascan	♥	1038¼p	–20¼	1122p	763½p	856.7	4.8
Can Imp Bk		17⅞xd	+½	17⅞	14⅞	3,701	4.1
Can Pacific		10⅞	+⅛	11⅞	8⅞	3,294	1.5
4pc Deb		42	—	45½	41½	19.6	9.5
Derlan	♥	159¼p	–2¼	165¼p	86p	–	8.5
Echo Bay	♥	664¾p	–13½	730¼p	532¼p	790.1	0.7
Gulf Can	♥	279p	–½	329½p	163½p	455.8	–
Hawker Sid	♥	7⅞	–⅛	9⅞	5⅞	83.3	6.6
Hudson's Bay	♥	12⅞	+⅛	13⅞	10⅞	374.1	3.5
Imperial Oil	♥	22⅞	–⅛	24⅞	20⅞	4,376	3.8
Inco		20⅞	–½	24½	15⅞	2,427	0.9
Nova Corp Alberta		490p	–5	611p	478p	1,489	3.1
Rio Algom	♥	12⅞	–⅛	13⅞	10⅞	542.8	2.9
Royal Bk Can		14⅞	+⅛	14⅞	11⅞	4,584	3.8
Toronto-Dom		11⅞xd	+⅛	11⅞	8⅞	3,414	3.7
Trans Can Pipe	♥	6⅞	+⅛	9	7⅞	1,328	4.7

SOUTH AFRICANS

	Notes	Price	+ or -	1995 high	1995 low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£31⅞	–⅛	£34	£29	2,109	2.6	Φ
Barlow	♣	£7¼	+⅛	£7¼	541⅞	1,449	1.3	26.7
Gold Flds Prop R		142xd	–3	182	118	14.5	7.3	6.5
NK Props		88	—	95	85	3.48	13.5	–
SASOL	♥	514	+14	648	435	3,009	2.6	–
SA Brews		£19⅞	+⅛	£20	£12⅞	5,870	1.7	Φ
Standard Bank		£21⅞	—	£22⅞	£20⅞	2,549	2.1	15.1
Tiger Oats		918	—	980	700	1,378	1.6	22.3
Tongaat-Hulett	fm	783	+18	835	638	713.8	1.8	23.6

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

☐ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
• Highs and lows marked thus have been adjusted to allow for capital changes
† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
Φ Figures or report awaited
♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
♣ Free annual/interim report available, see details below.
⁂ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
# Price at time of suspension
¶ Indicated dividend yield after pending scrip and/or rights issue
♦ Merger bid or reorganisation in progress
§ Forecast dividend yield; p/e based on earnings updated by latest interim statement.
◆ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v P/e ratios are calculated under new ACT guidelines.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
R Forecast annualise yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd
Pembroke Hall, Pembroke, Bermuda

Prices for dealing October 4

Jupiter Tyndall (Bermuda) Ltd
PO Box HM1256, Hamilton, Bermuda 001 809 292 2790

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd
PO Box 246, St Peter Port, Guernsey 01481 723021

Sarasin Funds Mngmt (Guernsey) Ltd
PO Box 248, St Peter Port, Guernsey 01481 723021

Schroder Investment Mngmt (Guernsey) Ltd
PO Box 255, St Peter Port, Guernsey 01481 710851

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

Arab Bank Fund Managers (Guernsey) Ltd

IRELAND (SIB RECOGNISED)

GAM Fund Management Ltd (u)
65-66 Lower Mount St, Dublin 2, Ireland 00 353 1 6760 630

GT Asset Management (Ireland) Ltd

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

هكذا من الأصل

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Credis Investment Funds

Merrill Lynch Asset Management - Contd.

Pacific Equity Portfolio

Global SmallCap Portfolio

Technology Portfolio

Capital Portfolio

Monterey Trust SICAV

Morgan Stanley Sicav

Murray Universal, Sicav

NICAM Asia Pacific Umbrella Fund

*Prices as at September 27

Nikko Asia Convertible Bond Fund

Nikko Bank (Luxembourg) S.A.

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OFFSHORE INSURANCES

World Trust Fund

LONDON STOCK EXCHANGE

MARKET REPORT

Takeover cash gives further boost to equities

By Steve Thompson,
UK Stock Market Editor

More evidence that cash from the recent spate of takeover bids in the regional electricity sector has been pushed back into the equity market, plus a fundamental stock shortage across the market, drove UK shares higher again yesterday.

Once again, the possibility of imminent corporate activity was said to have been behind strong gains in various sectors of the market.

True to recent form, the utilities provided more than their fair share of interest, with speculators shifting their sights in the electricity stocks towards East Midlands Electricity and Yorkshire.

Another hint in utilities was that the much heralded bid for Northumbrian Water from Lyonnaise des Eaux would come in lower than previously thought.

The FT-SE 100 index ended a buoyant session only a shade below the day's best, closing 19.9 higher at 3,544.1. The second-line stocks continued to leave their senior brethren behind, with the FT-SE Mid 250 index climbing 15.2 to 3,983.8.

Strong gains across the board in the equities market owed nothing to Wall Street, where the Dow Average, which dropped some 11 points overnight, came in weaker again, falling well over 20 points within 90 minutes of London's close, with US markets said to be increasingly nervous ahead of tomorrow's US non-farm payroll figures.

Dealers did point out, however, that European markets had taken heart from the recent encouraging performance of US Treasury bonds, where yields have moved to their lowest levels this year.

The trend in US bonds was said to have sustained UK gilts, which ended a few ticks higher yesterday. Some traders felt the market was already discounting more bid activity. "It wouldn't take too much for this market to get very windy indeed," said one. Strategists are becoming increasingly cautious as the FT-SE 100 moves to within striking distance of its all-time high.

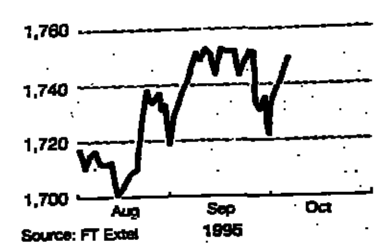
The best individual performances in the FT-SE 100 came from Courtaulds and the two classes of HSBC stock, where SBC Warburg was said to be promoting big switching between the Hong Kong and UK registered stock.

On the downside, Bank of Scotland took the dubious honour of worst performer in the premier index, after announcing disappointing half-year profits and a below consensus dividend.

Of the front runners in the FT-SE Mid 250, Vickers responded to broker recommendations, while Willis Corroon, the insurance broker, caught up with fellow broker Sedgwick, which made rapid gains on Tuesday. Both stocks have been languishing at near-record lows.

Turnover in equities increased significantly, reaching 749.2m shares by 6pm. Activity in non-Footsie stocks accounted for 60 per cent of overall trade. Tuesday's exceptionally heavy programme trading business gave a substantial boost to customer turnover, which topped the £2bn mark, eventually settling at £2.03bn. Retail business has topped £2bn once in the past two weeks, indicating that the institutions have been increasing their exposure to the equity market.

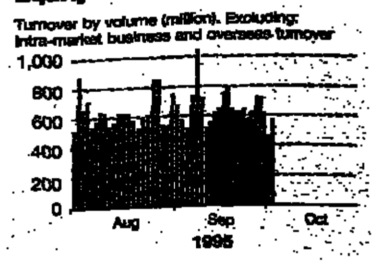
FT-SE-A All-Share Index



Source: FT Extel

Equity shares traded

Turnover by volume (million). Excluding: Intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3544.1	+19.9
FT-SE Mid 250	3983.8	+15.2
FT-SE-A 350	1770.7	+9.2
FT-SE-A All-Share	1749.84	+8.56
FT-SE-A All-Share yield	3.81	(3.83)
FT Ordinary Index	2627.3	+13.6
FT-SE-A Non Fins p/e	17.15	(17.06)
FT-SE100 Fut Dec	3575.0	+30.0
10 yr Gilt yield	8.00	(8.00)
Long gilt/equity yld ratio:	2.18	(2.18)

Best performing sectors

1 Tobacco ..... +2.7
2 Chemicals ..... +1.3
3 Oil, Integrated ..... +1.0
4 Telecommunications ..... +0.9
5 Breweries ..... +0.9

Worst performing sectors

1 Life Assurance ..... -0.8
2 Banks, Merchant ..... -0.7
3 Water ..... -0.6
4 Transport ..... -0.5
5 Spirits, Wines & Cids. ..... -0.3

Price cut hopes for chemicals

Hard-pressed chemicals group **Courtaulds**, left behind within the sector because of raw materials worries, bounced back to record the best performance in the FT-SE 100.

The shares had fallen 60p over recent weeks, but Kleinwort Benson picked up on press articles suggesting that the price of two key raw materials used by the company were stabilising, and possibly falling.

Yesterday, the house was telling clients that acrylonitrile, used in the production of acrylic fibres, appeared to be falling, while wood pulp, up at a record high, could be peaking.

Mr Mike Lewis of Kleinwort Benson commented: "The gross margin pressure they have had from raw materials prices is quite significant. The whole market is waiting to call the turn on this one." As a result, Courtaulds shares jumped 15 to 415p on turnover of 1.9m.

Recs again active

Bid activity in the regional electricity companies centred on **East Midlands**, which jumped for the second day running. The shares advanced 26 to 902p.

The company is one of the six remaining independent electricity groups along with **London**, **Seeboard**, **Swalec**, **Yorkshire** and **Northern**. Dealers were suggesting a possible link with Yorkshire, although Yorkshire spokesmen were pouring cold water on the idea.

There was also renewed talk that British Gas might be interested in a utility but the company has apparently been steering city analysts away from that. Turnover in the stocks remained subdued but, as analysts pointed out, so was the turnover in Southern Electric last week, which raced more than 60p ahead before the company announced it was in talks.

All the bid contenders – except for Northern which had divested much of the share value during its fighting with Trafalgar house – were up yesterday. London bounced 14 to 911p, Seeboard 10 to 503p and Swalec 7 to 932p. Northern declined 9 to 776p.

P&O nervous

P&O came in for some nervous selling ahead of today's lunch with institutions and brokers.

The transport leader is pushing out the boat at the Cafe Royal, and following some uninspiring September traffic numbers from Channel tunnel operator Eurotunnel some dealers were taking bets that the news on trading would not be over positive.

P&O's ferry operations account for around 15 per cent of group earnings and in recent months returns on this side of the business have been savaged by heavy price discounting. The shares shed 10 to 480p in 2.7m traded. **Eurotunnel** eased 2 to 95p.

Leading engineering stock **Vickers** jumped almost 7 per cent following a reiterated undervalued stance from ABN Amro Hoare Govett, which hosted a lunch for institutional investors on Tuesday. The shares closed 17 higher at 262p in 2.3m traded.

Rolls-Royce, which is undertaking a series of Scottish presentations this week, added 4 at 182p. Footsie inclusion hopes got behind **Smiths Industries**. The stock, capitalised at £1.8bn, is one of the Footsie reserves should takeovers lead to gaps in the index. It moved forward 8 to a new high of 597p for a two-day advance of 15p.

Brokers Williams de Broë turned seller on **British Steel**. The stock saw 6.9m shares traded and finished 3¼ lower at 181p.

In the waters, **Northumbrian**, seen as a target for Lyonnaise des Eaux, of France, receded 14 to 1019p. The market had forecast a bid price of £12 a share but, yesterday, there were worries that the French company would pay no more than £10 a share.

Also, **Yorkshire** fell 6 to 654p as Hoare Govett argued that outperformance of 11 per cent against the broad market in the space of a week was too much, too soon. The house advised switching into North West Water, up 3 at 594p.

Construction and building materials stocks showed up prominently in the the FT-SE Mid 250 rankings. Investors were said to be casting around for good value and picking up stocks that had stayed outside the summer rally for equities generally. Both sectors have lagged behind the market as a whole by around a fifth over the past year.

Pilkington advanced 9 to 209p, helped by a reiterated buy recommendation from Société Générale Strauss Turnbull. **Taylor Woodrow** put on 5 to 111p and **Wimpey** closed 5 higher at 113p. **Wolseley**, which puts out full-year results later this month, added 6 at 373p.

That broad trading trends in the industry remain negative was bourne out by the interim statement from plant hire specialist **Hewden-Stuart**. Smith New Court cut its profits estimate for this year by 13 per cent to £37m. The shares dropped 9½ to 133½p.

Rumours of boardroom changes, possibly before the end of the month, continued to track electronics giant **GEC**. The shares closed a penny firmer at 330p after another heavily traded session in which 9.1m shares changed hands.

Bank of Scotland's interim results were in line with forecasts but costs were up 17 per cent and the disappointment over the underlying figures was responsible for sending the shares down 7 to 240p, the worst performance in the FT-SE 100.

Distribution and storage specialist **Transport Development** came off 6¼ to 205¼p following a placing of 17.4m shares by NatWest Securities.

Troubled UK exhibitions organiser **Blenheim**, which has now largely completed a restructuring programme gained 16 to 236p after announcing current trading was in line with its budget.

Chemists' chain **Boots** was a strong feature as the shares appreciated 8 to 591p on reports that the summer's extreme weather had boosted trading.

Talk of a broker downgrade in **Great Universal Stores** along with concerns about the group's mail order business, left the shares 3 lighter at 603p after trade of 2.4m.

Storehouse eased 2 to 300p on nervousness ahead of today's trading statement.

Reduced interim profits from **Austin Reed**, together with a cautious statement, left the market disappointed and the shares fell 3 to 192p. Vague bid talk continued in **Lloyds Chemists**. The shares firmed 3 to 247p.

A purchase of 20,000 shares by a **First Choice Holidays** director helped the shares firm a penny to 66p.

Food manufacturer **Unilever** put on 7 to 1,264p after Societe Generale Strauss Turnbull was said to have reiterated its buy stance on the stock on hopes of better growth prospects in Europe for the company in 1996.

Morgan Stanley were said to have been the big buyer of **Cadbury Schweppes**. The shares jumped 12 to 492p, on volume of 3.2m. **Hillsdown** firmed a penny to 176p, with NatWest Securities said to have advised investors to add to holdings.

Further broker's recommendations helped boost **Whitbread** and the shares put on another 8 to 636p, on volume of 2.3m.

FINANCIAL TIMES EQUITY INDICES

	Oct 4	Oct 3	Oct 2	Sep 29	Sep 28	Yr ago	*High	*Low
Ordinary Share	2627.3	2613.7	2607.5	2601.5	2586.6	2286.9	2666.5	2238.3
Ord. div. yield	4.08	4.10	4.11	4.12	4.14	4.51	4.73	4.02
P/E ratio net	15.82	15.73	15.69	15.64	15.56	17.18	21.33	15.47
P/E ratio nil	15.63	15.55	15.46	15.46	15.38	17.21	22.21	15.25

*For 1995. Ordinary Share index since compilation: high 2713.6 2/02/94, low 49.4 26/6/40
FT Ordinary Share index base date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2613.2	2622.5	2628.1	2629.0	2625.7	2624.4	2623.9	2623.8	2626.5	2629.7	2612.4

	Oct 4	Oct 3	Oct 2	Sep 29	Sep 28	Yr ago
SEAQ bargains	27,769	29,461	28,948	26,199	26,146	21,055
Equity turnover (£m)†	-	2033.2	1275.0	1608.1	2122.4	1406.1
Equity bargains†	-	35,784	34,796	31,260	30,776	24,816
Shares traded (ml)†	-	580.4	465.3	611.5	726.3	913.6

†Excluding intra-market business and overseas turnover

London market data

Rises and falls*		1995 Highs and lows		LIFFE Equity options	
Total Rises	606	Total Highs	113	Total contracts	41,778
Total Falls	561	Total Lows	42	Calls	22,987
Same	1736			Puts	18,791

Oct. 4 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	3552.0	3575.0	+30.0	3583.0	3551.0	10535	61378
Mar	3604.0	3608.0	+30.0	3604.0	3604.0	20	2293
Jun	3605.0	3612.0	+30.0	3605.0	3605.0	84	60

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	4010.0	4010.0	+15.0	4010.0	4010.0	50	3538

■ FT-SE 100 INDEX OPTION (LIFFE) (*3542) £10 per full index point

	3350 C	3350 P	3400 C	3400 P	3450 C	3450 P	3500 C	3500 P	3550 C	3550 P	3600 C	3600 P	3650 C	3650 P	3700 C	3700 P
Oct	203½	2½	155½	4½	110	7½	68½	16	35	34	14½	66	4½	110	1½	160
Nov	223½	10	179	15½	138	25	102	39½	70½	60	43½	84	24½	117½	12½	160½
Dec	243½	22½	203½	32	165½	43½	130	58½	99	77½	73	103½	51	133½	36	171
Jan			222½	43			154½	74½			99	120½			58½	183½
Jun†			286	90½			221	123			168½	169			121	223

Calls 4,742 Puts 11,855

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3375 C	3375 P	3425 C	3425 P	3475 C	3475 P	3525 C	3525 P	3575 C	3575 P	3625 C	3625 P	3675 C	3675 P	3725 C	3725 P
Oct	179½	3	132½	5½	88½	12	52½	25½	25	48	9	82	2½	125	1½	173
Nov	197½	10	155	17½	116½	28	82	43½	54	65	33	93½	18½	129	10	169½
Dec	223	25½	181	33	143½	45	110	61	80	80	56	105½	37½	136	24	172
Mar			236½	59			169½	89			111½	128			70	183½
Jun†			286½	89			206½	124			153	165½			168	216½

Calls 5,604 Puts 1,858 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

MARKET REPORTERS:

Peter John,
Joel Kibazo,
Jeffrey Brown.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1995 High	1995 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
50	F.P.	14.1	71	50	Consolidated Coal	64	-3	-	-	-	-
-	F.P.	5.62	125	120	†Euro Sales Fin	125		-	-	-	-
-	F.P.	5.85	40	25	Hay & Robertson	39	-1	v-	-	-	-
-	F.P.	12.2	80	66	†Inner Workings	73		-	-	-	-
65	F.P.	16.9	89	84	Mayflower	88		W2.67	2.6	1.0	50.2
-	F.P.	9.08	3¼	3½	Media Business	3½	-¼	-	-	-	-
45	F.P.	17.6	61	52	†MultiMedia	51		-	-	-	-
-	F.P.	18.9	103	100	Murray Vct	103		HV1.5	4.0	2.1	14.6
-	F.P.	5.43	96	70	†Omnicare	88		-	-	-	-
-	F.P.	14.4	61	60	Pemberstone	60		-	-	-	-
100	F.P.	30.6	104	99	Pictet British	102		-	-	-	-
400	F.P.	3.62	400	400	†Preston Nth End	400		-	-	-	-
125	F.P.	13.2	133	6½	†SCS Satellite	128		-	-	-	-
149	F.P.	47.8	183	168	Universal Salvage	178		MV5.07	1.7	3.8	20.6
-	F.P.	-	½	½	Upton & Sthn Wts	½		-	-	-	-

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Oct 3	% chg on day	Oct 2	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (34)	1954.71	-0.9	1971.80	2293.00	1.92	-	2304.73	1637.91
■ Regional Indices								
Africa (16)	2695.19	-1.1	2725.01	3553.80	4.01	24.85	3711.87	2428.19
Australasia (6)	2398.13	-0.2	2401.75	2921.83	2.13	26.19	2951.49	1788.20
North America (12)	1679.37	-0.9	1694.66	1827.71	0.80	48.15	1831.00	1348.18

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FT - SE Actuaries Share Indices — The UK Series

	Oct 4	Day's chge%	Oct 3	Oct 2	Sep 29	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3544.1	+0.6	3524.2	3520.2	3508.2	2956.3	3.98	2.07	15.16	119.85	1403.64
FT-SE Mid 250	3983.8	+0.4	3968.6	3958.9	3948.8	3429.2	3.43	1.82	19.99	112.35	1548.15
FT-SE Mid 250 ex Inv Trusts	4010.4	+0.4	3994.3	3982.5	3970.7	3423.0	3.56	1.88	18.71	117.52	1558.31
FT-SE-A 350	1770.7	+0.5	1761.5	1758.9	1753.3	1487.7	3.86	2.02	16.04	57.66	1433.20
FT-SE-A 350 Higher Yield	1757.8	+0.7	1745.3	1743.3	1737.6	1487.8	4.93	1.82	13.95	72.94	1179.90
FT-SE-A 350 Lower Yield	1788.5	+0.3	1782.7	1779.7	1774.1	1450.6	2.76	2.39	18.95	41.10	1209.40
FT-SE SmallCap	1973.79	+0.1	1971.61	1970.52	1970.43	1778.51	3.27	1.68	22.78	50.04	1585.88
FT-SE SmallCap ex Inv Trusts	1959.07	+0.1	1956.74	1954.52	1954.27	1750.29	3.48	1.75	20.48	52.35	1581.91
FT-SE-A ALL-SHARE	1749.84	+0.5	1741.28	1738.89	1733.73	1477.82	3.81	2.00	16.40	56.00	1439.49

■ FT-SE Actuaries All-Share

	Oct 4	Day's chge%	Oct 3	Oct 2	Sep 29	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(23)	2980.46	+0.8	2955.74	2947.12	2940.08	2641.16	3.78	2.09	15.83	99.12	1246.84
12 Extractive Industries(7)	4278.77	+0.2	4268.74	4263.35	4223.90	3888.95	3.45	2.51	14.39	104.39	1215.28
15 Oil, Integrated(3)	2950.98	+1.0	2921.48	2908.33	2908.91	2582.12	3.98	2.04	15.42	106.40	1265.63
16 Oil Exploration & Prod(13)	1984.39	+0.5	1975.06	1971.82	1968.86	1894.97	2.53	1.48	33.29	49.88	1177.87
20 GEN INDUSTRIALS(278)	2003.90	+0.5	1993.29	1987.83	1984.91	1835.51	4.10	1.81	16.85	66.90	1067.51
21 Building & Construction(38)	929.89	+0.4	926.55	923.59	922.24	1017.84	4.37	1.86	15.41	32.20	759.57
22 Building Matls & Merchs(31)	1759.22	+0.9	1743.61	1740.37	1740.62	1803.46	4.20	2.01	14.78	56.87	864.73
23 Chemicals(23)	2480.12	+1.3	2447.34	2418.10	2415.99	2268.12	3.88	1.83	17.62	79.34	1147.02
24 Diversified Industrials(20)	1781.11	+0.3	1775.95	1793.25	1784.58	1742.96	5.57	1.58	14.24	87.14	967.77
25 Electronic & Elect Equip(36)	2178.24	+0.2	2173.64	2132.25	2132.02	1882.49	3.44	1.93	18.85	58.99	1108.72
26 Engineering(69)	2223.72	+0.4	2215.76	2206.29	2204.03	1783.04	3.26	1.99	19.22	55.11	1319.24
27 Engineering, Vehicles(13)	2685.31	+0.6	2670.06	2664.53	2664.52	2201.52	3.49	0.83	42.88	71.44	1356.42
28 Paper, Pckg & Printing(27)	2931.41	+0.5	2915.77	2923.32	2924.47	2754.75	3.39	2.50	14.74	85.03	1195.47
29 Textiles & Apparel(21)	1616.57	+0.1	1615.08	1608.05	1607.56	1577.87	4.46	1.76	15.88	50.56	955.53
30 CONSUMER GOODS(92)	3425.69	+0.8	3398.23	3397.78	3388.69	2645.23	3.90	1.76	18.18	114.51	1235.77
31 Breweries(18)	2638.35	+0.9	2614.91	2593.07	2586.97	2132.30	3.77	1.99	16.62	62.40	1233.98
32 Spirits, Wines & Ciders(10)	2967.49	-0.3	2976.90	2975.17	2984.41	2731.19	4.03	1.84	16.83	95.16	1039.24
33 Food Producers(24)	2511.22	+0.8	2490.93	2497.73	2496.20	2242.23	4.03	1.77	17.50	80.26	1104.45
34 Household Goods(11)	2544.71	....	2545.24	2561.59	2566.24	2275.86	3.74	2.06	16.24	59.15	943.96
36 Health Care(17)	2015.57	+0.7	2001.59	1982.82	1989.70	1568.48	2.58	1.82	26.55	37.42	1202.59
37 Pharmaceuticals(11)	4516.73	+0.8	4479.68	4485.72	4450.89	2914.92	3.58	1.57	22.19	153.87	1506.00
38 Tobacco(1)	4603.92	+2.7	4481.10	4481.10	4476.86	3498.25	5.21	1.90	12.66	229.23	1113.83
40 SERVICES(226)	2185.77	+0.1	2183.58	2176.72	2167.11	1846.11	3.05	2.07	19.80	55.06	1114.03
41 Distributors(30)	2746.82	-0.1	2749.53	2754.51	2743.43	2450.36	3.60	1.75	19.85	73.00	988.99
42 Leisure & Hotels(29)	2495.69	+0.3	2489.11	2484.90	2477.71	2010.69	3.20	1.85	21.04	69.81	1276.28
43 Media(43)	3359.02	-0.1	3361.71	3345.56	3324.11	2709.07	2.17	2.40	24.04	75.14	1199.92
44 Retailers, Food(16)	2129.32	+0.7	2114.51	2112.86	2108.31	1697.26	3.38	2.42	15.26	58.30	1323.59
45 Retailers, General(44)	1807.02	+0.2	1803.03	1800.95	1792.97	1578.12	3.24	2.17	17.78	41.76	1008.63
48 Support Services(37)	1859.16	+0.4	1852.41	1848.72	1844.01	1455.18	2.47	2.44	20.79	34.30	1163.37
49 Transport(20)	2226.22	-0.5	2237.22	2209.69	2194.54	2155.54	3.87	1.28	25.25	72.44	908.46
51 Other Services & Business(7)	1215.80	-0.3	1219.30	1216.98	1223.27	1245.54	4.19	1.73	17.29	38.30	1088.48
60 UTILITIES(37)	2580.38	+0.3	2571.65	2575.11	2564.89	2279.83	4.42	2.02	14.01	86.37	1050.33
62 Electricity(15)	2774.90	-0.3	2781.94	2792.69	2777.61	2366.95	4.00	2.96	10.56	116.18	1234.70
64 Gas Distribution(2)	1763.22	+0.7	1750.43	1753.63	1764.33	1911.03	6.80	0.65	28.35	68.63	857.57
66 Telecommunications(7)	2173.02	+0.9	2153.22	2157.57	2159.79	1897.81	3.78	1.71	19.38	51.48	966.51
68 Water(13)	2135.00	-0.6	2148.46	2134.60	2079.46	1756.11	5.37	2.75	8.47	85.07	1134.75
69 NON-FINANCIALS(656)	1873.07	+0.5	1863.73	1860.76	1855.16	1599.44	3.80	1.92	17.15	56.78	1383.80
70 FINANCIALS(113)	2631.42	+0.5	2618.46	2615.76	2606.58	2064.11	4.23	2.45	12.08	100.25	1097.38
71 Banks, Retail(9)	3622.63	+0.9	3591.00	3587.52	3589.06	2691.03	4.02	2.81	11.08	139.15	1142.09
72 Banks, Merchant(6)	3608.27	-0.7	3632.82	3631.92	3633.19	2584.93	2.57	2.75	17.67	83.89	1124.52
73 Insurance(25)	1326.19	+0.8	1315.83	1317.81	1319.00	1169.17	5.56	2.69	8.38	63.99	965.38
74 Life Assurance(6)	3017.23	-0.8	3041.89	3038.05	3037.04	2255.78	4.62	1.53	17.62	136.72	1229.22
77 Other Financial(22)	2357.87	+0.2	2353.51	2333.17	2318.97	1777.37	3.74	1.92	17.36	61.68	1313.04
79 Property(45)	1445.68	-0.2	1449.25	1450.90	1448.27	1437.65	4.26	1.34	21.82	43.60	864.71
80 INVESTMENT TRUSTS(134)	2942.52	+0.3	2934.52	2940.82	2942.03	2699.56	2.22	1.07	52.70	51.66	1013.08
89 FT-SE-A ALL-SHARE(903)	1749.84	+0.5	1741.28	1738.89	1733.73	1477.82	3.81	2.00	16.40	56.00	1439.49
FT-SE-A Fledgling	1074.75	+0.1	1073.76	1074.33	1072.90	-	2.83	1.21	38.60	24.32	1101.15
FT-SE-A Fledgling ex Inv Trusts	1071.29	+0.1	1070.18	1070.60	1068.79	-	2.99	1.25	33.44	25.22	1098.69

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3526.1	3535.0	3539.2	3544.2	3540.6	3538.5	3540.4	3537.8	3542.4	3544.6	3525.9
FT-SE Mid 250	3968.2	3969.8	3975.1	3979.5	3979.7	3979.4	3980.3	3980.4	3982.2	3983.8	3967.5
FT-SE-A 350	1762.2	1765.7	1767.9	1770.3	1768.9	1768.1	1768.9	1767.9	1769.8	1770.7	1762.0

Time of FT-SE 100 Day's high: 10.58am Day's low: 8.31am . FT-SE 100 1995 High: 3570.8 (13/9) Low: 2954.2 (23/1)

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	920.0	922.1	923.8	926.5	932.3	931.8	932.6	932.1	932.0	932.0	925.6	+6.4
Pharmaceuticls	4431.8	4445.4	4460.7	4449.6	4448.2	4447.1	4449.3	4464.8	4461.4	4461.8	4424.1	+37.7
Water	2147.1	2135.6	2138.6	2138.3	2137.7	2133.1	2136.3	2135.8	2133.2	2131.3	2145.1	-13.8
Banks, Retail	3651.1	3665.9	3669.0	3672.7	3664.6	3659.1	3661.6	3655.8	3682.3	3668.9	3636.8	+32.1

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products relating to these indices, is available from FINSTAT, Fitzroy House, 13-17 Epworth Street, London EC2A 4DL.
The FT "500" has been renamed FT-SE-A Non-Financials index. The FT-SE 100, the FT-SE Mid 250, FT-SE Actuaries 350 and the FT-SE Actuaries Industry baskets are calculated by the International Stock Exchange of the United Kingdom and Republic of Ireland and the FT-SE Actuaries All-Share Index is compiled by The Financial Times Limited, both in conjunction with the Institute of Actuaries and the Faculty of Actuaries under a standard set of ground rules. © The International Stock Exchange of the United Kingdom and Republic of Ireland Limited 1995. © The Financial Times Limited 1995. All rights reserved. "FT-SE" and "Footsie" are joint trade marks and service marks of the London Stock Exchange and The Financial Times Limited. The FT-SE Actuaries Share Indices are audited by The WM Company. † Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative.

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	349	411	+6
ASDA Group†	10,000	105	+1
Abbey National†	3,100	556	+7
Albert Fisher	1,200	53	
Allied Domecq†	1,400	532	-4
Anglian Water	1,500	589	-4
Argos	105	500	+1
Argyll Group†	4,500	341½	+6
Arjo Wiggins†	873	252	+5
Assoc. Brit. Foods†	81	692	+3
Assoc. Brit. Ports	629	317	+1
BAA†	3,100	504	+1
BAT Inds.†	8,400	544	+15
BET	5,400	131½	-2½
BICC	812	295	-1
BOC†	677	828	+6
BP†	3,300	480½	+4
BPB Inds.	945	315	-4
BSkyB†	7,700	399½	-6½
BT†	13,000	399½	+4½
BTR†	4,100	328	
Bank of Scotland†	4,700	240	-7
Barclays†	2,000	749	+2
Bass†	3,100	655	+6
Blue Circle†	782	313	+3½
Booker	13,000	390	-3
Boots†	1,800	591	+8
Brit. Aerospace†	2,800	749	+2
British Airways†	4,900	471	-1
British Gas†	5,800	266½	+2
British Land	258	416	-2
British Steel†	8,600	181	-3¼
Bunzl	499	210	+2
Burmah Castrol†	288	992	+6
Burton	4,700	109½	-2
Cable & Wire†	3,400	422	+2
Cadbury Schweppes†	3,200	492	+12
Caradon	553	213	+1
Carlton Comms.†	225	1023	-2
Coats Viyella	2,500	205	+1
Comm. Union†	981	589	+2
Compass	1,100	445	+4
Cookson†	556	282	
Courtaulds†	1,900	415	+15
Dalgety	1,000	448	+5
De La Rue†	192	924	+7
Dixons	4,000	370½	+2
East Midland Elect.	803	902	+26
Electrocomps	1,300	329	
Eng China Clays	469	368	+2
Enterprise Oil†	1,500	357	
Eurotunnel Units	775	95	-2
FKI	1,300	167½	-1½
Fisons†	3,000	259	+2
Foreign & Col. I.T.	328	147	+½
Forte†	2,500	244	-2
Gen. Accident†	795	618	+9
General Elect.†	9,400	330	+1
Glaxo Wellcome†	4,800	772	+6
Glynwed	2,000	367	+2
Granada†	1,100	654	+7
Grand Met.†	4,900	436	-4
GUS†	2,400	603	-3
GRE†	1,300	222	+6
GKN†	1,700	819	+2
Guinness†	4,100	524	+3
HSBC (75p shs)†	3,100	932½	+26½
Hammerson	11	356	
Hanson†	5,700	200¾	+1¼
Harrisons Crosfield	2,400	155	+3
Hays	320	348	+1½
Hillsdown	104	176	+1
IMI	247	333½	+½
ICI†	1,400	834	+14
Inchcape†	4,400	320	-4
Johnson Matthey	402	584	
Kingfisher†	4,500	507	+7
Kwik Save	103	693	+3
Ladbroke†	2,300	171	
Land Securities†	2,700	612½	-4½
Laporte	391	829	+17
Legal & General†	596	601	-1
Lloyds Abbey	1,200	453	+4
Lloyds Bank†	1,700	700	+7
LASMO†	12,000	167	+1
London Elect.	558	911	+14
Lonrho	586	165	+1
Lucas	3,200	203	+2
MEPC	310	383	
MFI	355	137	
Manweb	11,000	991	-1
Marks & Spencer†	4,100	429	-½
Mercury Asset Man	592	925	+8
Midlands Elect.†	183	984	
Morrison (Wm)	831	161	+4
NFC	3,000	149	-1
NatWest Bank†	2,100	625	-1
National Power†	2,400	489	-12
Next	434	409	+3
North West Water†	588	594	+3
Northern Elect	1,200	776	-9
Northern Foods	85	182	
Norweb	71	1086	-1
Pearson†	1,200	807	
P & O†	2,700	480	-10
Pilkington	4,500	209	+9
PowerGen†	2,400	543	-11
Prudential†	5,200	372	-8
REXAM†	1,200	400	-2
RMC†	1,400	1095	-3
RTZ†	1,500	941	+2
Racal	383	268	-2
Rank Org †	1,600	422½	+½
Reckitt & Colman†	726	652	+2
Redland†	845	380	-1
Reed Intl.†	557	968	+5
Rentokil†	1,300	325½	+6
Reuters†	4,800	552	+1
Rolls Royce†	5,800	182	+4
Ryl Bk Scotland†	920	459	-6
Royal Insurance†	1,000	357	
Sainsbury†	4,100	435	+1½
Schroders†	17	1338	-15
Scottish & New.†	942	614	+7
Scot. Hydro-Elect.	582	335	-4
Scottish Power†	2,000	350½	+2
Sears†	5,800	111	+½
Sedgwick	1,600	114	+1
Seeboard	349	503	+10
Severn Trent†	817	655	-4
Shell Transport†	3,300	757	+9
Siebe†	1,300	727	+2
Slough Ests	508	218	
Smith (W.H)	676	370	+4
Smith & Nephew†	10,000	194	+2
SmKl Beecham†	3,200	656	+10½
SmKl Beecham Uts.†	2,900	646	+12½
Smiths Inds.	1,300	597	+8
Southern Elect.†	2,600	964	
South Wales Elect	17	932	+7
South West Water	278	534	-9
Southern Water	519	712	-8
Standard Chartd.†	4,000	456	-3
Storehouse	972	300	-2
Sun Alliance†	914	357	-1
T&N	6,000	179½	+1½
TI Group†	836	441	-1
TSB†	4,300	277	-2
Tarmac	1,700	93	+1
Tate & Lyle†	1,200	449	+1
Taylor Woodrow	4,500	111	+5
TeleWest	897	194	+1
Tesco†	2,100	317	+1
Thames Water†	828	548	-4
Thorn EMI†	492	1490	+6
Tomkins†	3,000	251	+2
Trafalgar House	2,100	28½	
Unigate	2,500	430½	+7½
Unilever†	1,700	1264	+7
United Biscuits	3,400	281	+2
Utd. News & Media	1,200	529	
Vodafone†	6,200	265½	+3
Welsh Water	121	771	-12
Wessex Water	56	348	
Whitbread†	2,600	636	+8
Williams Hldgs.†	656	330	+1
Willis Corroon	1,000	129	+9
Wimpey	812	113	+5
Wolseley†	777	373	+6
Yorkshire Elect.	831	916	+19
Yorkshire Water	616	654	-6
Zeneca†	1,800	1165	

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 index constituent. All trades are rounded.

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WORLD STOCK MARKETS

EUROPE

AUSTRIA (Oct 4 / Sch)

BELGIUM/LUXEMBOURG (Oct 4 / Frs.)

CZECH REP (Oct 4 / Koruna)

DENMARK (Oct 4 / Kr)

FINLAND (Oct 4 / Mks)

FRANCE (Oct 4 / Frs.)

GERMANY (Oct 4 / Dm.)

GREECE (Oct 4 / Drachma)

ITALY (Oct 4 / Lire)

NETHERLANDS (Oct 4 / Fls.)

NORWAY (Oct 4 / Kroner)

POLAND (Oct 4 / Zloty)

PORTUGAL (Oct 4 / Escudo)

SPAIN (Oct 4 / Pts.)

SWEDEN (Oct 4 / Kronor)

SWITZERLAND (Oct 4 / Frs.)

TURKEY (Oct 4 / Tk Lira)

PACIFIC

JAPAN (Oct 4 / Yen)

AUSTRALIA (Oct 4 / Aust$)

HONG KONG (Oct 4 / H.K.$)

INDONESIA (Oct 4 / Rupiah)

MALAYSIA (Oct 4 / MYR)

NEW ZEALAND (Oct 4 / NZ $)

SINGAPORE (Oct 4 / S$)

SOUTH KOREA (Oct 4 / Won)

TAIWAN (Oct 4 / TW $)

THAILAND (Oct 4 / Baht)

AFRICA

SOUTH AFRICA (Oct 4 / Rand)

NORTH AMERICA

CANADA

TORONTO (Oct 4 / Can $)
4 pm close

Sales			+/-	High	Low
228584	Abitib	23⅝	-⅛	$23⅞	23⅛
3300	AgnEag	18¼		$18½	18¼
39011	AirCda	485		490	485
60508	AlbaE	20½	+¼	$20⅝	20⅛
1408	AlbNG	23	+½	u$23	22¼
2016420	AlcnAl	40⅝	-⅛	$41½	40⅛
8300	AtcoCl	16¼	-¼	$16⅜	16½
316195	Avenor	27⅜	-1	$29	27¼
55400	BCSugA	7⅛	-⅛	$7⅜	7⅛
134795	BC Tel	23¾		$23⅞	23⅝
389159	BCE	45¼		$45⅞	44⅞
1210	BCE Mb	41⅞	+⅛	$41⅞	41⅛
7100	BGR A	13⅞		$14	13⅞
110	Bmlawk	13⅛		$13⅛	13⅛
1888710	BkMont	30⅛		u$31	30⅛
2383150	BkNovS	29⅜	+⅜	$30	29
711808	BrckGd	33⅝	-⅛	$34	33⅛
15189	BeaudEs	151	-3	154	151

MONTREAL (Oct 4 / Can $)
4 pm close

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1995, except Toronto & Montreal (daily). # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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INDICES

	Oct 4	Oct 3	Oct 2	1995 High		1995 Low	
Argentina							
General (29/12/77)	(u)	13983.60	14058.41	16531.10	2/1	9831.09	9/3
Australia							
All Ordinaries(1/1/80)	2103.4	2132.0	2137.7	2166.09	18/8	1823.30	8/2
All Mining(1/1/80)	959.2	976.0	978.6	1028.50	7/8	795.39	8/2
Austria							
Credit Aktien(30/12/84)	356.78	357.18	361.01	385.42	2/1	350.32	30/3
Traded Index(2/1/91)	972.77	989.21	976.44	1056.31	2/1	934.83	30/3
Belgium							
BEL20 (1/1/91)	1450.67	1461.94	1464.30	1491.39	2/6	1271.53	9/3
Brazil							
Bovespa (29/12/83)	(u)	45042.0	45380.0	48612.00	19/9	4831.60	8/9
Canada							
Metals Minls♦(1975)	(u)	4671.69	4796.88	5252.77	21/8	3906.53	1/3
Composite♦ (1975)	(u)	4469.50	4494.90	4710.30	12/7	3991.41	30/1
Portfolio$$ (4/1/83)	(u)	2191.85	2187.43	2307.81	12/7	1988.36	30/1
Chile							
IGPA Gen♥(31/12/80)	(u)	5795.5	5811.6	6363.10	11/7	4576.90	9/3
Denmark							
CopenhagenSE(3/1/83)	363.50	362.24	363.00	375.44	25/8	330.01	29/3
Finland							
HEX General(28/12/90)	2121.11	2140.59	2191.83	2332.22	14/9	1855.39	29/3
France							
SBF 250 (31/12/90)	1208.66	1207.72	1197.09	1322.30	12/5	1154.41	13/3
CAC 40(31/12/87)	1803.87	1800.70	1780.71	2017.27	12/5	1721.20	13/3
Germany							
FAZ Aktien(31/12/58)	812.10	(c)	807.47	846.76	19/9	708.87	30/3
Commerzbank(1/12/53)	2330.6	(c)	2315.3	2427.68	19/9	2018.70	30/3
DAX (30/12/87)‡	2217.76	(c)	2205.02	2317.81	15/9	1910.96	28/3
Greece							
Athens SE(31/12/80)	921.28	924.75	940.14	982.59	4/8	787.15	16/3
Hong Kong							
Hang Seng(31/7/64)	9939.95	9805.46	9724.98	9939.95	4/10	6967.93	23/1
India							
BSE Sens.♥(1979)	3531.49	(c)	(c)	3932.09	2/1	3015.07	2/5
Indonesia							
Jakarta Comp.(10/8/82)	492.65	487.80	490.56	518.18	11/8	414.21	19/4
Ireland							
ISEQ Overall(4/1/88)	2142.33	2142.76	2138.05	2170.73	15/9	1813.58	23/1
Italy							
Banca Comm Ital (1972)	613.72	612.36	616.56	680.54	10/2	587.99	23/3
MIB General (2/1/95)	969.0	967.0	974.0	1076.00	10/2	929.00	23/3
Japan							
Nikkei 225 (16/5/49)	18145.08	18142.99	17739.84	19684.04	4/1	14485.41	3/7
Nikkei 300 (1/10/82)	272.56	271.12	268.45	288.16	4/1	222.28	13/6
Topix (4/1/68)	1451.99	1444.46	1422.07	1553.40	4/1	1193.16	13/6
2nd Section (4/1/68)	1883.35	1874.25	1865.59	2130.88	4/1	1441.90	13/6
Malaysia							
KLSE Comp.(4/4/86)	988.32	977.24	984.12	1085.04	5/6	840.87	24/1
Mexico							
IPC (Nov 1978)	(u)	2277.08	2291.96	2822.21	8/9	1447.82	27/2
Netherland							
CBS TtlRtnGen(End 83)	504.4	503.2	503.9	511.80	19/9	422.98	23/3
CBS All Shr (End 83)	305.7	305.0	305.4	311.10	15/9	265.20	23/3
New Zealand							
Cap. 40 (1/7/86)	2102.31	2116.59	2107.43	2165.79	18/5	1901.43	5/1
Norway							
Oslo-SE(Ind)(2/1/83)	1258.70	1264.36	1271.74	1291.58	19/9	1096.00	10/3
Philippines							
Manila Comp (2/1/85)	2569.33	2617.68	2629.21	2958.12	10/7	2248.39	27/3
Portugal							
BTA (1977)	2641.6	2629.9	2621.4	2911.69	9/1	2580.70	25/9
Singapore							
SES All-S'pore(2/4/75)	518.48	517.85	518.24	535.06	5/1	472.98	23/1
South Africa							
JSE Gold (28/9/78)	1494.7♥	1488.8	1503.6	2023.00	2/1	1317.20	19/5
JSE Ind. (28/9/78)	7103.9♥	7096.5	7098.2	7113.20	2/10	6222.00	31/1
South Korea							
KoreaCompEx(4/1/80)‴	982.89	(c)	975.79	1027.37	2/1	847.09	27/5
Spain							
Madrid SE (30/12/85)	302.82	302.48	304.39	318.98	13/9	283.30	25/6
Sweden							
AffarsvarldsGen (1/2/37)	1815.6	1824.5	1834.5	1872.18	19/9	1439.80	29/3
Switzerland							
Swiss Bk Ind (31/12/58)	1410.01	1415.87	1410.09†	1423.67	19/9	1174.63	13/3
SBC General (1/4/87)	1050.91	1035.64	1052.52	1055.64	3/10	878.58	13/3
Taiwan							
WeightedPr.(30/6/66)‴	5086.45	5035.78	5045.62	7081.49	5/1	4603.37	14/8
Thailand							
Bangkok SET (30/4/75)	1312.94	1298.32	1289.95	1472.04	10/7	1135.69	18/3
Turkey							
Istanbul Comp.(Jan 1986)	44351.3	43246.0	42969.7	54853.90	21/4	24644.31	23/1
WORLD							
MS Capital Int (1/1/70)$	(u)	697.4*	697.0	703.80	23/9	596.21	23/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1422.98	1421.48	1433.05	1480.88	15/9	1222.41	13/3
Euro Top-100 (26/6/90)	1287.29	1287.34†	1284.52	1316.68	15/9	1117.34	9/3
JCapalOrgan (31/12/88)	(u)	333.44	332.60	349.47	14/7	282.07	23/1
Barings Emerg.(7/1/92)	(u)	145.25	147.06	169.07	2/1	117.15	10/3

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 x index)							
Oct	1776.0	1811.0	+23.0	1814.0	1776.0	15,080	30,028
Nov	1785.5	1819.5	+23.0	1818.5	1785.5	129	2,847
DAX (closed 3/10/95)							
Dec	2221.0	2215.0	-2.00	2230.0	2208.0	11,342	73,482
Mar	2245.5	2235.0	-4.50	2245.5	2230.5	232	1,830
OMX							
Oct	1452.00	1453.00	-8.00	1458.00	1447.00	3,762	16,807
Nov	1463.00	1464.50	-17.00	1464.50	1457.50	200	1,120
SOFFEX							
Oct	3030.0	3046.5	+6.70	3056.0	3030.0	4,312	16,017
Nov	3036.0	3052.7	-8.00	3036.0	3036.0	5	253

‴ Sat Sep 30: Taiwan Weighted Price 5033.08; Korea Comp Ex 982.65. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 20 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. $$ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Oct 5 - 2211.66 +14.59.

US INDICES

Dow Jones	Oct 3	Oct 2	Sep 29	1995 High	1995 Low	Since compilation High	Since compilation Low
Industrials	4749.70	4761.26	4789.08	4801.80 (14/9)	3832.08 (30/1)	4801.80 (14/9/95)	41.22 (2/7/32)
Home Bonds	103.46	103.15	103.08	103.76 (13/7)	93.63 (3/1)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	1925.23	1954.02	1954.25	2008.39 (18/9)	1473.19 (3/1)	2008.39 (18/9/95)	12.32 (8/7/32)
Utilities	216.58	215.40	214.28	216.58 (3/10)	183.03 (3/1)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 4791.61 (4817.98) Low 4702.74 (4732.72) (Theoretical♣)
Day's high 4767.04 (4789.80) Low 4716.10 (4746.98) (Actual♣)

Standard and Poors	Oct 3	Oct 2	Sep 29	1995 High	1995 Low	Since compilation High	Since compilation Low
Composite ‡	582.34	581.72	584.41	586.77 (20/9)	459.11 (3/1)	586.77 (20/9/95)	4.40 (1/6/32)
Industrials♥	682.60	682.76	686.52	691.27 (20/9)	546.28 (3/1)	691.27 (20/9/95)	3.62 (21/6/32)
Financial	58.60	59.09	58.33	59.60 (3/10)	41.64 (3/1)	59.60 (3/10/95)	8.64 (1/10/74)
NYSE Comp.	312.08	312.08	313.26	314.33 (20/9)	250.73 (3/1)	314.33 (20/9/95)	4.46 (25/4/42)
Amex Mkt Val	536.70	540.80	544.72	553.58 (12/9)	433.12 (6/1)	553.58 (12/9/95)	29.31 (9/12/72)
NASDAQ Comp	1020.45	1027.58	1043.54	1067.40 (13/9)	743.58 (3/1)	1067.40 (13/9/95)	54.87 (31/10/72)

RATIOS

	Sep 29	Sep 22	Sep 15	Year ago
Dow Jones Ind. Div. Yield	2.42	2.42	2.40	2.78
	Sep 27	Sep 20	Sep 13	Year ago
S & P Ind. Div. yield	2.07	2.05	2.07	2.39
S & P Ind. P/E ratio	17.94	18.14	17.85	20.78

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Prdntl Reins	10,363,900	19⅜	+2⅜
USAir	9,634,700	12⅝	+1⅛
Telefonos	8,124,500	29½	-½
Micron	5,860,500	75¾	-1¾
McDonalds	3,594,300	38⅝	+⅝
IBM	3,290,600	94⅜	+1½
Ford Motor	3,196,200	30⅝	-⅝
Roch G&E	3,163,500	23⅜	+¼
Telefonica	2,799,300	39⅜	-¼
Motorola	2,704,200	74⅜	-1⅝

TRADING ACTIVITY

● Volume (millions)

	Oct 3	Oct 2	Sep 29
New York SE	385.892	304.888	335.216
Amex	16.895	16.398	21.331
NASDAQ	467.494	403.808	474.719
NYSE			
Issues Traded	3,023	3,016	3,018
Rises	917	939	1,445
Falls	1,328	1,339	771
Unchanged	778	738	800
New Highs	102	122	170
New Lows	47	28	17

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
S&P 500							
Dec	586.25	585.50	-0.80	586.55	585.20	77,502	189,988
Mar	590.75	590.30	-0.30	590.75	590.25	393	7,258
Nikkei 225							
Dec	18240.0	18180.0	-	18380.0	18110.0	25,790	151,272
Mar	18260.0	18260.0	-	18260.0	18260.0	1	4,762

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♣ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

TOKYO - MOST ACTIVE STOCKS: Wednesday, October 4, 1995.

	Stocks Traded	Closing Prices	Change on day
Nippon Steel	22.2m	351	+4
Mitsubishi Hvy	12.3m	784	+6
Sumitomo Prec	11.6m	1,050	-50
NKK Corp	9.2m	267	+5
Nip Hsg Loan	8.3m	28	+1
Hitachi Zosen	5.9m	509	+10
Fujitsu	4.2m	1,220	-20
Toshiba Corp	4.1m	741	+11
Nippon Conlux	4.0m	1,100	-40
Itochu Corp	3.9m	630	+18

4 pm close October 4

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1995 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
19	12 1/8	AAR	0.48	2.7	24	123	18	17 3/4	17 3/4	-3/8
46 1/4	35	AMP	0.92	2.5	19	8432	38	37 1/4	37 1/2	-1/4
80 1/4	53 3/8	AMR			18	4203	69 1/4	68 5/8	69	+1/2
47 7/8	41 1/2	ASA	1.71	4.1	27	502	41 7/8	d41 1/2	41 1/2	-1/4
43 7/8	30 3/4	AbbtL	0.84	1.9	22	11721	u44 3/4	43 5/8	44 5/8	+1
18 7/8	12	Abitibi Pr	0.40	2.3	20	1292	18	17 3/8	17 1/2	-3/8
26 3/4	21	ABM Ind	0.60	2.2	15	107	u26 7/8	26 5/8	26 7/8	+3/8
17 1/2	13 1/2	Acpincoln			11	717	15 5/8	15 1/4	15 5/8	+3/8
34 3/4	21 7/8	ACE Ltd x	0.56	1.6	8	169	34 1/8	34	34	
9 7/8	8 1/8	ACM Gvt In x	0.90	9.2	8	249	u9 7/8	9 3/4	9 3/4	
7 3/4	6 1/2	ACM GvOpp x	0.66	9.1		3	7 1/4	7 1/4	7 1/4	-1/8
7 1/2	5 3/4	ACM Gvt Sp x	0.75	10.9		153	6 7/8	6 3/4	6 7/8	
8 3/4	7 1/4	ACM Gvt Se x	0.90	10.3		250	u8 3/4	8 5/8	8 3/4	+1/8
9 1/2	7 5/8	ACM Man x	0.90	10.4		446	8 3/4	8 5/8	8 5/8	-1/8
29 1/4	10 1/4	AcmeClv	0.48	1.8	12	179	26 5/8	26	26 1/4	-1/8
38 3/4	9 3/4	Acme Elect			48	53	9 5/8	9 3/8	9 5/8	+1/4
34 1/2	24 3/8	Acordia	0.72	3.0	11	25	24 1/2	d24 1/4	24 3/8	-1/8
19 3/4	8 5/8	Actava	0.36	2.1	12	1458	17	15 3/4	16 3/4	+5/8
16 3/4	10 1/8	Acuson			34	258	13 3/8	13 1/8	13 1/8	-1/4
18 5/8	15 5/8	Adams Expr	0.48	2.6	0	50	u18 5/8	18 1/2	18 5/8	+1/8
38 7/8	25	AdvMic			7	9850	28 1/2	27 3/8	27 3/8	-1 5/8
9 3/8	5	Advest Grp	0.16	1.7	16	38	u9 3/8	9 1/4	9 1/4	-1/8
24	16 1/2	Advo Inc	0.10	0.4	18	865	23 3/8	22 3/4	23	-3/8
37 1/4	24 80	Aegon	1.28	3.6	19	92	36 1/8	35 7/8	35 7/8	+1/8
5 7/8	3 1/8	Aerfo			9	91	5	4 7/8	4 7/8	-1/8
75 1/2	46 3/4	AetnaL	2.76	3.8	52	5835	71 3/4	71 1/4	71 3/4	+1/4
44 3/4	31 7/8	Aflac	0.52	1.3	12	987	41 1/8	40 3/4	40 3/4	-3/4

Continued on next page

4 pm close October 4

NYSE COMPOSITE PRICES

Continued from previous page

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NASDAQ NATIONAL MARKET

4 pm close October 4

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AMEX COMPOSITE PRICES

4 pm close October 4

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AMERICA

Technology shares retreat in low volume

Wall Street

Investors continued to batter *technology shares in early* trading yesterday, bringing losses in the Nasdaq composite, which is weighted towards that sector, to nearly 5 per cent in the past week and a half, *writes Lisa Bransten in New York.*

At 1 pm the Nasdaq composite was 18.50 lower at 1,001.95. The Pacific Stock Exchange *technology index added a* decline of 2.8 per cent to the 0.9 per cent it lost on Tuesday.

Volumes were very thin due to the Yom Kippur holiday.

Leading the technology decline were semiconductor shares, five of which were downgraded by an analyst at SoundView Financial Group who said that an easing of the *semiconductor shortage could* have an impact on prices.

LSI Logic was the hardest hit of the companies included in the report, falling 11 per cent or $6 to $50⅞. The others were: Integrated Device Technology, off 10 per cent or $2¼ at $20¾, VLSI Technology, $3½ lower at $28¼, and National Semiconductor, down $1⅝ at $25⅛.

Other sectors posted more modest losses, with the Dow Jones Industrial Average underperforming the more broadly based Standard & Poor's 500 as fears about poor *third-quarter earnings* continued to weaken cyclical shares. The Morgan Stanley index of cyclical shares shed 1.5 per cent in early trading yesterday.

Weak cyclical issues in the Dow included Du Pont, $1⅛ cheaper at $64¾, International Paper, $1⅛ lower at $39, and United Technology, which shed $1⅞ to $83⅞.

At 1 pm the Dow was off 20.23 at 4,729.47, while the S&P 500 dipped 2.14 to 580.20 and the American Stock Exchange composite lost 3.95 at 532.75. NYSE volume came to 198m shares.

US Treasuries were steady as economic data on August manufacturing orders and the index of leading economic indicators were *both in line* with the median estimates from economists. The dollar, however, softened as traders took some profits before this weekend's meeting of the G7 finance ministers.

Bankers Trust declined $1⅛ to $68⅝ after a judge allowed Procter & Gamble to add a racketeering charge to its lawsuit against the US bank. P&G added $⅛ at $78⅞.

Canada

Toronto drifted lower at midday *as the market entered the* traditional October doldrums. The TSE-300 composite index eased 6.81 to 4,492.68 in volume of 36.4m shares.

Financials were mostly firm, with Bank of Nova Scotia ahead C$¼ at C$29½, but Bank of Montreal gave up an early advance to trade C$⅛ down at C$30⅛.

Leaders among losing stocks included the Four Seasons Hotels chain, which dropped C$1 to C$16, and the software maker Softquad International, which fell C$⅜ to C$5⅛.

Another falling issue was Tee-Comm Electronics, which makes satellite television dishes, down C$⅝ to C$17⅝ after its sharp rise during the *past few sessions.*

SOUTH AFRICA

Demand for blue chip industrials picked up in Johannesburg on positive local economic factors and expectations of strong corporate earnings growth. The overall index gained 12.3 at 5,662.3, industrials moved forward 7.4 to 7,103.9 and golds improved 5.9 to 1,494.7.

EUROPE

French car components sector tumbles

Underlying weakness in the car components sector was demonstrated in PARIS, where Sommer-Allibert tumbled by 14 per cent following brokers' downgrades. The shares lost FFr236 to FFr1,460 in reasonable volume.

A perception that there were *difficult times ahead for the* industry put pressure on other companies, Bertrand Faure falling FFr8.50 to FFr170.90, bringing its drop to 21 per cent since its year's high of FFr216 at the end of May; Valeo, which reported a 10 per cent increase in nine-month sales, shed FFr9.70 to FFr227.50.

Carmakers fared better, with *Renault up FFr1.30 at* FFr144.80 and Peugeot steady at FFr669. James Capel said yesterday it did not believe that the recently announced government initiatives to stimulate the French car market would have a significant impact on profits. "Contrary to general expectations," said the broker's automotive industry team, "we calculate that they [the incentives] will have virtually no effect on the profits of either company . . . the extent of the impact is within the margin of error on our profit forecasts, which we are therefore leaving unchanged for both years."

The CAC-40 index moved forward 3.17 to 1,803.87.

UAP was the day's best performer with a gain of 7 per cent or FFr7.90 at FFr119.30 after the insurer reported interim figures which seemed to please many analysts.

FRANKFURT came back from a day's holiday, rose in sympathy with the Paris and *Zurich gains on Tuesday, and* traded in a narrow range as the Ibis-indicated Dax index closed 14.59 higher at 2,211.60.

The recovery in the dollar helped, although this was trimmed back by profit-taking after good gains in the US and Asia overnight.

A small cut in the repo rate, meanwhile, highlighted the *rise in bunds: financials* responded, with Allianz, Bayernhypo and Bayernverein rising by DM38 to DM2,609, 47 pfgs to DM36.22 and 66 pfgs to DM41.36 respectively; and utilities had another good day, with Veba, in particular, up 80 pfgs to DM58. Mr Michael Geiger, German strategist at CS First Boston, said that utilities, *although liquid, had been hit* by bond portfolio write-downs at this time last year, and that the potential absence of this problem in 1995 was still helping the sector.

Turnover rose from DM3.6bn to DM5.4bn. Preussag climbed DM9 to DM435 on the sale of its Hagenuk subsidiary, completing its withdrawal from the telecommunications industry where the group had failed to achieve critical mass. Volkswagen underperformed, down 80 pfgs at DM464.60 after the European Commission said that the car maker must cut capacity by 5 to 6 per cent in *Europe to get aid for its Spanish Seat subsidiary.*

Outside the Dax, weakness in construction prospects left Dywidag down DM15 or 6.4 per cent at DM220, and Bilfinger & Berger DM20 lower at DM625.

MILAN was unsettled by a sharp fall in the Fiat share price, and while the Comit index edged 1.36 higher to 613.72 the real-time Mibtel index slipped 29 to 9,779.

Fiat tumbled L254 or 4.3 per cent to L5,651 after an investors' presentation in London on Tuesday which highlighted a sharp fall in the company's Brazilian sales since July after import tariffs were raised. The news brought a flurry of rumours in Milan and raised questions over second-half earnings. However, Mr Nicholas Potter at Credito Italiano International noted that details of developments in Brazil were already known, adding that Fiat planned to produce the Tipo model in Brazil from November. He added that the arrival of the company's Project 178 – a Punto-sized world car for emerging markets – next year meant that Fiat was "still extremely well placed".

Telecom Italia Mobile rose L58 to L2,792 in spite of news that the European Commission wanted the government to compensate Omnitel-Pronto Italia for the L750bn licence fee which it had to pay to operate the second GSM network.

ZURICH paid a brief, early visit above the 3,055-point resistance level but the move proved unsustainable and prices soon turned back. The SMI index finished 12.5 lower at 3,036.5, after a peak of 3,064.0 and as analysts noted that the 3,055 level had also proved a strong resistance level when the market last encountered it in the early months of 1994.

Among blue chips, Nestlé registered lost SFr7 to SFr1,025 as the dollar weakened, and Roche certificates fell SFr45 to SFr8,155.

Swiss Re stood out among weaker financials, picking up SFr1 to SFr1,144. After the market closed, the insurer announced that it was launching two investment funds with CS Holding.

AMSTERDAM took in a solid gain from KLM, up Fl 1.20 to Fl 57.60 on speculation that British Airways might seek out a strategic link with the Dutch carrier following takeover rumours in the US.

The AEX index rose 0.12 to 463.92. Royal Dutch moved up Fl 2.20 to Fl 199.40 assisted by further brokers' upgrades.

STOCKHOLM's saving grace was Astra, the pharmaceuticals group, up SKr3.50 to SKr252.50 on what was seen as an international switch into defensive stocks. Ericsson B dropped SKr5 to SKr159, Volvo B SKr4 to SKr163.50, and the Affärsvärlden General index closed 8.9 lower at 1,815.6.

Written and edited by William Cochrane, Michael Morgan and John Pitt

FT-SE Actuaries Share Indices

THE EUROPEAN SERIES

Oct 4 Hourly changes	Open	11.30	12.00	12.30	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1425.58	1424.93	1424.48	1424.35	1425.63	1424.42	1422.24	1422.98
FT-SE Eurotrack 200	1530.13	1529.62	1529.42	1528.41	1527.82	1528.40	1527.32	1528.03

	Oct 3	Oct 2	Sep 29	Sep 28	Sep 27
FT-SE Eurotrack 100	1421.48	1423.05	1412.87	1405.44	1413.48
FT-SE Eurotrack 200	1526.81	1524.47	1513.86	1502.32	1503.56

Base 1000 (26/10/90); High/day 100 - 1426.24; 200 - 1530.27 Low/day: 100 - 1421.58 200 - 1527.00 † Partial

Weak Mexico pressures Brazil

Mexico City was down a further 1.2 per cent in early trade following the rise in domestic interest rates. The IPC index declined 28.02 to 2,249.06.

SAO PAULO resumed its downward trend and was off 0.8 per cent in light midday trading following the drop on the Mexican bourse. The Bovespa index stood 350 lower at 44,692 at 1 pm in thin turnover of R$133m ($138.8m).

Speculation ahead of mid-October options and futures settlements also contributed to the market weakness, brokers said.

Telebras retreated 0.7 per cent to R$43.50 and Eletrobras preferred slipped 0.4 per cent to R$278 by noon. Petrobras preferred was traded at R$95.01, down 1.5 per cent.

BUENOS AIRES was slightly firmer by mid-morning in spite of the release of data showing that inflation had risen slightly during September. The Merval index put on 2.18 at 560.13.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms: September 29 1995	% Change over week	% Change on Dec '94	Local currency terms: September 29 1995	% Change over week	% Change on Dec '94
Latin America	(252)	496.75	-2.2	-14.4			
Argentina	(30)	681.67	-0.6	-7.2	418,249.85	-0.6	-7.2
Brazil	(72)	342.55	-0.9	-10.9	1,221.66	-1.0	+0.3
Chile	(36)	751.70	-2.3	-4.2	1,201.29	-0.5	-4.7
Colombia[1]	(16)	636.98	+0.4	-21.5	1,088.11	-0.8	-9.0
Mexico	(67)	478.79	-4.8	-21.2	1,314.02	-4.5	+1.8
Peru[2]	(19)	196.52	-1.5	+10.2	270.02	-1.0	+13.5
Venezuela[3]	(12)	404.05	+1.4	-18.4	1,577.04	+1.4	-18.4
Asia	(657)	240.28	-1.7	-3.7			
China[4]	(20)	66.88	-2.5	-11.8	70.31	-2.5	-13.2
South Korea[5]	(159)	141.66	-0.9	+3.6	143.03	-1.2	+0.9
Philippines	(25)	259.87	-3.9	-12.8	327.09	-3.7	-6.9
Taiwan, China[6]	(93)	110.92	+2.3	-32.5	112.68	+0.9	-30.6
India[7]	(101)	93.04	+0.4	-24.7	112.12	+0.8	-18.5
Indonesia[8]	(42)	107.18	-0.6	+7.4	131.90	-0.7	+10.8
Malaysia	(114)	277.35	-2.3	+3.2	256.95	-2.2	+1.4
Pakistan[9]	(36)	292.79	-5.0	-20.0	419.08	-4.9	-18.1
Sri Lanka[10]	(19)	106.40	-1.1	-38.1	120.59	-1.1	-35.0
Thailand	(68)	380.17	-1.1	-0.9	378.58	-1.0	-1.0
Euro/Mid East	(210)	135.17	-0.4	+14.1			
Greece	(40)	257.21	-1.7	+14.0	403.69	-1.1	+9.8
Hungary[11]	(5)	127.09	-1.1	-16.3	198.78	-0.5	-3.8
Jordan	(8)	185.49	+4.3	+23.6	277.67	+3.8	+24.9
Poland[12]	(16)	485.73	-0.6	+3.5	743.78	-0.3	+3.3
Portugal	(28)	118.26	+0.2	-2.3	121.52	+0.7	-8.3
South Africa[13]	(64)	235.84	-0.4	+4.9	177.80	-0.4	-6.0
Turkey[14]	(44)	129.06	-0.2	+6.0	2,983.68	+2.4	+34.8
Zimbabwe[15]	(5)	264.03	+0.5	+7.9	343.17	+1.5	+13.9
Composite	(1119)	279.56	-1.4	-9.1			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 5 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992 (11)Dec 31 1992 (12)Dec 31 1992; (13)Dec 31 1992; (14)Aug 4 1989; (15)June 2 1993.

The Argentine equity market has suffered this year, and while that suffering may not have been quite so great as in Mexico or Brazil, the outlook remains uncertain, writes John Pitt.

Indeed, as Salomon Brothers comments in its latest Latin American strategy publication, performance in both the stock and debt markets is likely still to be influenced heavily over the coming months by the tense political relationship between President Carlos Menem and Mr Domingo Cavallo, his economy minister.

Mr John Purcell and his team in New York observe that the outlook for the Merval index in the short term "is likely to be determined by the related factors of investor confidence and the resurgence of economic growth; confidence and growth, in turn, depend heavily upon whether domestic and foreign investors can rely on the preservation of the country's convertibility law and stable macroeconomic policy". The problem is that this programme, in most investors' minds, depends very much on the survival in office of Mr Cavallo, say Salomon. Hence, if he resigns suddenly or is sacked by Mr Menem there would be a sharp fall in the Merval. "The outlook, therefore, to an unusually large extent revolves around the single political question: can Argentina's economic policy be depersonalised and depoliticised?"

But Mr Purcell thinks that the government has more to lose than gain by upsetting market sentiment further, believes that the political situation will probably stabilise and, therefore, forecasts "a significant stock market rally in excess of 30 per cent within the next six to eight months".

ASIA PACIFIC

Nikkei steady as Manila drops by 1.9%

Tokyo

Supported by renewed dollar strength and foreign buying of large-capital issues, but restrained by profit-taking, stocks closed only slightly higher in the wake of Tuesday's strong advance, *writes Robert Patton in Tokyo.*

The Nikkei 225 average gained just 2.09 points at *18,145.08 following* Tuesday's 403.15 rise. Equities remained in a narrow range all day, with a morning low of 18,056.20 and a high of 18,346.55.

The Topix index of all first section stocks moved up 7.53 to 1,451.99. Winners outnumbered losers by 660 to 348, with 178 issues unchanged. Volume was estimated at 360m shares, up from the estimated 253.37m that changed hands on Tuesday. The capital weighted Nikkei 300 added 1.44 at 272.56. In London the ISE/Nikkei 50 was 1.03 firmer at 1,239.10.

Sentiment was supported by the overnight rise of the dollar to above the Y101 level in New York. But early profit-taking after Tuesday's strong move capped upward movement in the morning.

At one point the Nikkei dipped below Tuesday's close. In the afternoon session, while large-capital shares continued to attract some buyers, high-priced electronics stocks such as Fanuc began to show gains.

Fanuc jumped Y320 to Y4,800, while TDK added Y80 at Y5,090 and Kyocera moved ahead Y40 to Y8,440.

Steelmakers, among Tuesday's winners, continued their advance. Nippon Steel, which announced plans to buy Companhia Vale do Rio Doce, the world's largest iron exporter, once it is privatised by the Brazilian government, rose to the top of the day's most active list, advancing Y4 to Y351 in the process.

Shipbuilders also built on the previous day's gains. Mitsubishi Heavy Industries climbed Y6 to Y784, Hitachi Zosen Y10 to Y509, Kawasaki Heavy Industries Y6 to Y426 and Ishikawajima-Harima Heavy Industries Y10 to Y430.

NTT, under ongoing pressure to break up its operations, continued to rise, adding Y9,000 at Y88,900.

In Osaka the OSE average moved up 175.52 to 19,614.75 in volume of 31.6m shares.

Roundup

Reports that inflation had soared to 11.8 per cent in September, the highest rate for three years, prompted a broad sell-off in MANILA, which saw several issues breaking major support levels.

The composite index was down 48.35 or 1.9 per cent at 2,569.33, but had recovered modestly from a low of 2,547.63 seen early in the session.

HONG KONG, in contrast, jumped 1.4 per cent to a 13-month high, spurred by a perception of improved Sino-British relations after Tuesday's ministerial talks in London, the overnight slide in US long bond yields and the strong US dollar.

The Hang Seng index rose 134.49 to 9,939.95, with some good corporate results and expectations of interest rate *cuts also helping the mood.* Turnover swelled to a heavy HK$5.6bn. Property shares were the biggest gainers, with the sub-index up 2.2 per cent.

BANGKOK was sharply higher in moderate trade, led by strong buying of relatively cheap bank and finance issues as the recent gloomy market took a more optimistic lead from rallies in Hong Kong and other regional bourses.

The SET index closed 16.62 or 1.3 per cent ahead at a two-week high of 1,312.94.

KUALA LUMPUR saw a technical bounce after two days of losses, but volume shrank further as foreign investors continued to ignore the market. A late surge in some core stocks helped to push *the composite index up* 11.08 to finish at the day's best of 988.32.

Dealers said that foreign funds, kept out by worries about the economy, were unlikely to return before the budget announcement on October 27.

SEOUL pushed higher on institutional support of primary blue chips, and the composite stock index gained 7.10 at 982.89. Kepco was actively traded, rising Won700 to Won29,600, with today's pricing of a $300m ADR issue attracting investors' interest.

SYDNEY bemoaned the negative sentiment in US equity markets, resulting local investor caution, and a lack of interest from Asian investors as the *All Ordinaries index* ended 28.60 lower at 2,103.40.

A rising Australian dollar and falling base metal prices were also blamed for the setback. BHP was the most active share, falling 20 cents to A$17.98; Western Mining dropped 23 cents or 2.6 per cent to A$8.57.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by The Financial Times and Goldman Sachs in conjunction with the Institute of Actuaries and the Faculty of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of lines of stock)	Tue Oct 3 1995: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	Mon Oct 2 1995: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Dollar Index: 52 week High	52 week Low	Year ago (approx)
Australia (82)	188.82	0.4	177.09	120.91	141.29	164.01	0.0	3.96	188.08	175.68	119.57	139.80	163.98	191.01	157.95	171.22
Austria (26)	176.55	−1.4	165.58	113.05	132.11	132.05	−0.8	1.35	179.15	167.35	113.90	133.17	133.12	199.28	167.48	182.08
Belgium (35)	*193.49*	*−0.5*	*181.47*	*123.90*	*144.78*	*141.19*	0.1	3.70	194.48	181.68	123.65	144.57	141.05	201.12	161.66	163.16
Brazil (28)	148.03	−0.9	138.83	94.79	110.76	261.06	−0.3	1.62	149.32	139.49	94.94	111.01	261.97	–	–	–
Canada (100)	144.92	0.7	135.92	92.80	108.44	139.50	−0.1	2.67	143.97	134.49	91.54	107.03	139.58	150.83	121.81	137.80
Denmark (33)	279.16	−0.6	261.82	178.76	208.89	211.92	0.1	1.53	280.94	262.45	178.62	208.85	211.76	295.99	236.61	249.00
Finland (25)	253.05	−3.8	237.33	162.05	189.35	228.92	−3.3	1.40	263.08	245.77	167.27	195.57	236.72	276.11	171.13	180.31
France (100)	172.46	0.4	161.75	110.44	129.05	134.26	1.1	3.27	171.81	160.50	109.24	127.72	132.84	191.17	157.79	162.69
Germany (59)	158.84	−0.7	148.96	101.72	118.86	118.86	0.0	2.01	159.89	149.36	101.66	118.86	118.86	167.74	134.99	137.45
Hong Kong (55)	380.65	0.8	357.01	243.76	284.84	377.79	0.7	3.82	377.82	352.95	240.22	280.87	375.05	391.43	277.40	390.95
Ireland (16)	248.54	0.0	233.10	159.16	185.98	217.23	0.5	3.49	248.47	232.12	157.98	184.72	216.26	249.46	195.34	202.06
Italy (59)	74.87	−0.9	70.22	47.94	56.02	90.61	−0.2	1.68	75.52	70.55	48.02	56.14	90.84	82.71	65.45	81.53
Japan (483)	144.54	0.9	135.56	92.56	108.16	92.56	1.7	0.82	143.19	133.76	91.04	106.45	91.04	164.82	136.95	158.61
Malaysia (108)	481.64	−0.7	451.72	308.43	360.41	468.67	−0.6	1.75	484.99	453.08	308.37	360.55	471.32	567.20	398.16	557.72
Mexico (18)	1019.00	−3.2	955.70	652.52	762.49	7258.47	−1.1	1.92	1052.45	983.17	669.16	782.37	7341.42	2302.03	647.81	2284.60
Netherland (19)	255.64	−0.7	239.76	163.70	191.29	188.12	0.0	3.47	257.44	240.50	163.69	191.38	188.14	263.99	205.92	207.92
New Zealand (14)	*78.74*	*0.3*	*73.85*	*50.42*	*58.92*	*63.66*	*0.6*	*4.50*	*78.51*	*73.34*	*49.92*	*58.36*	*63.26*	*85.49*	*69.56*	*72.85*
Norway (33)	233.06	−1.3	218.59	149.25	174.40	199.82	−0.7	2.12	236.21	220.66	150.19	175.60	201.12	243.79	192.92	194.89
Singapore (44)	368.46	−0.2	345.57	235.95	275.71	243.32	−0.1	1.69	369.29	344.98	234.80	274.53	243.61	414.26	313.94	381.40
South Africa (45)	349.94	−0.1	328.20	224.09	261.85	280.17	0.0	4.16	350.45	327.38	222.82	260.52	280.29	363.22	281.06	311.84
Spain (38)	147.85	−1.6	138.67	94.68	110.63	139.26	−0.7	4.06	150.28	140.39	95.55	111.72	140.23	160.51	124.10	137.13
Sweden (48)	315.20	−0.9	295.63	201.85	235.86	325.61	−0.4	1.83	318.24	297.29	202.34	236.58	326.95	320.43	219.88	220.14
Switzerland (41)	215.61	−0.4	202.22	138.07	161.33	154.91	0.4	1.72	216.42	202.18	137.60	160.88	154.31	216.42	158.38	158.91
Thailand (46)	163.37	0.8	153.23	104.62	122.25	159.41	0.8	2.56	162.06	151.39	103.04	120.48	158.06	–	–	–
United Kingdom (207)	225.44	−0.3	211.44	144.37	168.70	211.44	0.1	4.04	226.07	211.19	143.74	168.06	211.19	227.07	187.07	191.57
USA (504)	238.44	0.1	223.63	152.69	178.42	238.44	0.1	2.46	238.16	222.49	151.43	177.05	238.16	239.87	182.33	188.50
Americas (650)	217.85	0.1	204.32	139.50	163.01	182.69	0.1	2.46	217.64	203.32	138.38	161.79	182.52	–	–	–
Europe (739)	194.27	−0.5	182.21	124.41	145.37	164.57	0.1	3.07	195.20	182.35	124.11	145.11	164.40	199.02	163.04	166.13
Nordic (139)	288.83	−1.4	270.89	184.96	216.13	252.20	−0.8	1.74	293.03	273.74	186.31	217.84	254.37	295.02	213.93	215.68
Pacific Basin (832)	155.51	0.8	145.85	99.58	116.36	103.10	1.4	1.27	154.25	144.09	98.07	114.67	101.69	173.52	145.93	166.45
Euro-Pacific (1571)	*171.56*	*0.2*	*160.91*	*109.86*	*128.38*	*126.34*	0.8	*2.12*	*171.21*	*159.94*	*108.86*	*127.28*	*125.38*	178.33	154.73	167.34
North America (504)	232.65	0.1	218.20	148.98	174.09	231.82	0.1	2.47	232.34	217.04	147.72	172.72	231.56	233.93	178.86	185.35
Europe Ex. UK (532)	173.42	−0.6	162.64	111.05	129.76	138.77	0.1	2.51	174.43	162.95	110.91	129.67	138.63	179.48	146.45	148.62
Pacific Ex. Japan (349)	259.02	0.3	242.94	165.87	193.83	226.32	0.2	3.24	258.35	241.35	164.26	192.06	225.89	266.72	211.19	263.48
World Ex. US (1762)	172.54	0.2	161.82	110.49	129.10	129.80	0.7	2.17	172.23	160.89	109.50	128.03	128.87	178.73	155.42	169.40
World Ex. UK (2059)	189.56	0.2	177.78	121.39	141.84	156.31	0.5	2.09	189.17	176.72	120.28	140.63	155.49	191.32	163.46	173.07
World Ex. Japan (1783)	219.66	−0.1	206.01	140.66	164.36	204.97	0.1	2.76	219.88	205.41	139.80	163.46	204.76	220.98	178.95	185.31
The World Index (2266)	192.69	0.2	180.72	123.39	144.19	161.15	0.5	2.28	192.39	179.73	122.33	143.02	160.37	194.25	165.92	174.72

CONSTITUENT CHANGE WITH EFFECT 10/10/95: Addition: VA Stahl (Austria) (Large Cap Index). Latest prices were unavailable for this edition. Market closed 3/10/95: Germany.

IMF says world resilient to market turmoil

However, relatively optimistic global outlook carries a financial health warning, writes Robert Chote

The world economy has proven resilient to recent turmoil in the financial markets, the International Monetary Fund said yesterday. Although the Fund has become more pessimistic about the outlook for the industrialised economies, it has upgraded growth forecasts for many developing countries and some of those making the transition from communism.

The world economy is expected to grow by 3.7 per cent this year and 4.1 per cent in 1996. These growth rates are a little above the average recorded since the 1970s and would take the value of global output to more than $30,000bn at market exchange rates for the first time next year.

Developing countries are forecast to enjoy economic growth of 6 per cent or more this year and next, outstripping the less than 3 per cent expansion of the industrialised economies as they have done for the last 25 years. Developing nations produce about 40 per cent of world output, compared with the 55 per cent accounted for by industrial countries and the 5 per cent produced by those in transition. On present trends the developing countries should overtake the industrialised ones in less than a decade.

Developing countries have benefited from greater openness and integration with the rest of the world economy and – unusually – growth in the developing world has been relatively unaffected by the most recent slowdown in the industrial world. Greater efficiency in agriculture has allowed developing countries to broaden their export base by expanding manufacturing, while they have also diversified their export markets.

In the wake of Mexico's financial crisis, capital inflows to developing countries have weakened from the record levels recorded in the first half of the decade. Net inflows are predicted to run at a little under $120bn this year and next, down from an average of nearly $150bn a year over the previous four years but well up on the $30bn a year recorded in the second half of the 1980s. The Fund calculates that if policy failures in the industrial countries reverse capital flows next year by raising long-term interest rates output in the developing world could be 4 per cent lower than it would otherwise be by the end of the decade.

Policy weaknesses in industrialised countries threaten to cause renewed turbulence in financial markets

Trade is expected to remain an engine of global growth, having expanded at almost twice the pace of world output over the last 35 years. World trade in goods and services is predicted to decelerate a little this year and next, but still to grow by 6.5 per cent in 1996.

Japan is expected to continue losing its share of world markets, with its export volumes likely to have gone up by only 6 per cent between 1991 and 1996 compared with a 34 per cent rise in world trade over the same period. After seeing its market share drop by a fifth since the 1970s, the UK is expected to gain share both this year and next.

The Fund warned that its relatively optimistic forecast was clouded by risks in both the short and medium term. Policy weaknesses in the industrialised countries threatened to provoke renewed turbulence in financial markets. Many developing countries risked overheating because of rapid growth or because of the difficulties of managing capital inflows. Transition economies might suffer setbacks to their stabilisation efforts in part because of the fragility of their financial systems.

Among the industrial countries, Japan is mired in one of its worst economic slowdowns since the second world war and needs to do more to kickstart recovery. But the IMF warned policymakers in North America and Europe that they should not overreact to signs of weaker growth on their own home ground, especially as their continued high levels of government borrowing provided little room for manoeuvre on interest rates.

Slower growth should be welcomed in the US – and in countries such as the UK and Australia whose cycles are closely synchronised with it – as it alleviates inflationary pressure. The slowdown in continental Europe at first glance appeared more worrying because recovery there only got under way in 1993. But lower long-term interest rates and calmer financial markets are expected to allow growth there to continue at a little above its long-term trend rate.

"The storm that broke with the financial crisis in Mexico has been weathered well by most emerging market economies," the IMF argued. It added that the maintenance of market confidence and continued solid economic performance in most countries was testament to the progress made in promoting financial stability and market-oriented structural reforms.

The Fund predicted that Mexico's economy should soon begin to recover.

In Latin America as a whole growth will be much lower this year than last, helping to reduce inflation. But growth should pick up again to 4 per cent in 1996.

The risk of overheating among developing countries is greatest in Asia, where the upward revisions to growth forecasts have been most significant. Continued high levels of capital inflows are contributing to upward pressures on demand in countries with inflexible exchange rates. Growth in Asian developing countries is expected to average more than 8 per cent for the fourth year running.

Growth prospects now look brighter in Africa as a growing number of countries adopt market-oriented reforms. Growth in Africa is likely to accelerate from 3 per cent this year to 5.2 per cent in 1996. But significantly higher growth will be needed to improve living standards with many countries in the region still suffering from falling or stagnant per capita incomes, widespread poverty and unsustainable levels of debt. In much of sub-Saharan Africa debt burdens exceed four times export earnings.

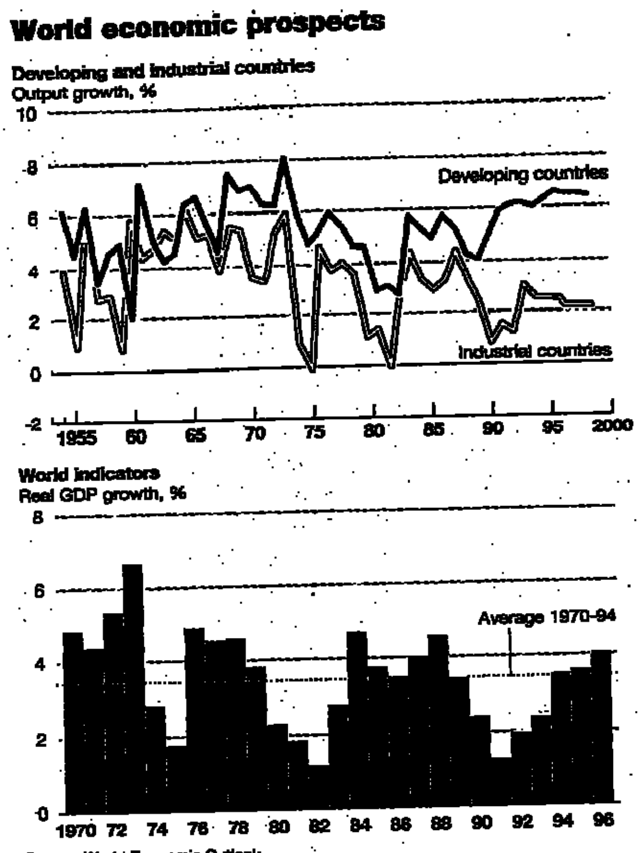
"Few countries appear to have any realistic hope of servicing debt burdens of such a magnitude," the Fund said.

Economic performance in the transition economies varies from country to country, depending largely on how far down the road to economic stabilisation and restructuring they have travelled. The more advanced countries – such as Poland, Hungary and the Czech Republic – are enjoying robust growth, helped by buoyant investment and trade growth. Laggards such as Russia, Belarus and Ukraine have seen output continue to decline into this year, even though official statistics may exaggerate the scale of decline.

The Fund noted that the fragility of financial systems was an important weakness in many transition economies. The accumulation of bad loans has continued during the early years of the transition, even among recently formed institutions. The problem of loans to ailing enterprises had to be tackled, while there was a need for tougher prudential supervision, better assessment of credit risk, more stringent capital requirements and greater access for foreign banks.

The Fund said that the transition economies needed a comprehensive strategy for the reform of their financial systems – what was good enough for Japan was good enough for them.

World economic prospects



Source: World Economic Outlook

Tokyo urged to provide fresh spur to growth

By Robert Chote, Economics Editor, in Washington

The Japanese government's Y14,000bn ($138bn) stimulus package last month has significantly improved prospects for recovery but more needs to be done to reinvigorate the economy, the International Monetary Fund said yesterday.

The package, unveiled on September 20, is forecast to widen Japan's structural budget deficit – excluding social security – from 5.5 per cent of national income this year to 6.3 per cent in 1996.

Without the package the deficit would have narrowed from 4.9 to 4.7 per cent.

The Fund said the measures would probably mean that growth would be higher than its central forecast of 2.2 per cent next year, with a 3 to 4 per cent expansion feasible. But it said that the government would have to start reining in its borrowing as soon as the upturn was safely entrenched.

IMF economists warned that Japan's output was likely to remain 6 per cent below its potential level next year even if growth accelerated. Unemployment, already at a record high, was likely to rise further in the absence of a strong recovery.

"The persistent weakness of activity is due to the combined effects of sluggish domestic demand, which is affected by balance sheet difficulties that arose after the bursting of the asset price bubble, the overhang of excess capital stocks and the strength of the exchange rate," the Fund argued.

Mr Michael Mussa, the IMF's economic counsellor, said the recovery projected for next year was much weaker than would normally be expected in a country where output was so far below potential.

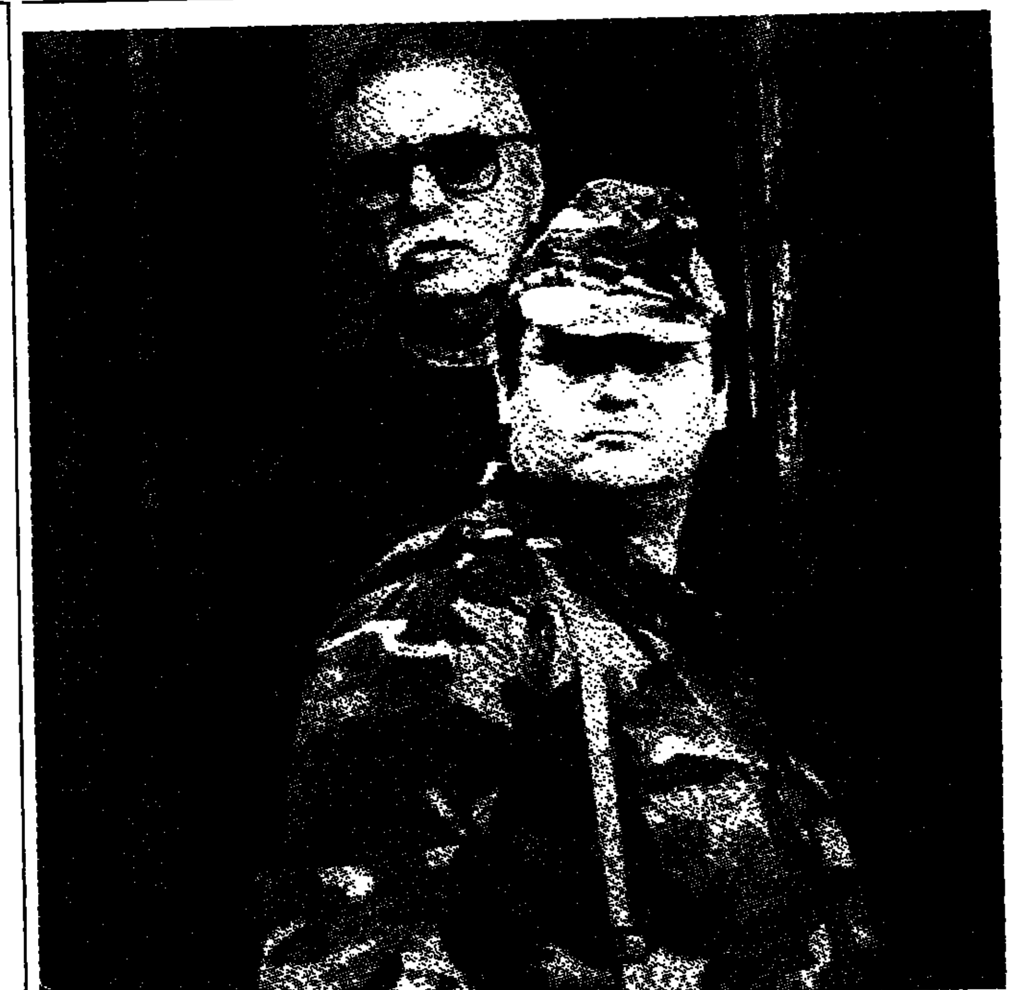
He said growth would be restrained as Japan's larger banks rebuilt their balance sheets by widening the spreads between the interest rates charged to lenders and offered to depositors.

Recent cuts in official interest rates had been useful, but "given the overall tepid economic environment, it is important for the authorities to keep the supply of liquidity ample," the Fund said.

The recent managed closure of some financial institutions was an important step toward the resolution of the bad loan problem, but other institutions might need restructuring, Mr Mussa said.

The government should facilitate loan write-offs, encourage the use of loan securitisation, make more flexible use of deposit insurance funds and address the problems of housing loan companies.

Mr Mussa said there were more small financial institutions whose losses should be recognised and which should be closed or merged. Public money would be needed to tackle the problem. Japan also needed to tackle the over-regulation of its economy, which was slowing the pace of adjustment and concentrating the pain of change in sectors facing international competition.



Mercenary Bob Denard, with spectacles, directs operations from Moroni barracks yesterday Reuter

Comoros coup ends as French troops swoop

By Michela Wrong and Agencies

The coup in the Comoro islands in the Indian Ocean ended yesterday when mercenary Bob Denard handed over his hostage, President Said Mohamed Djohar, after a military intervention by French troops.

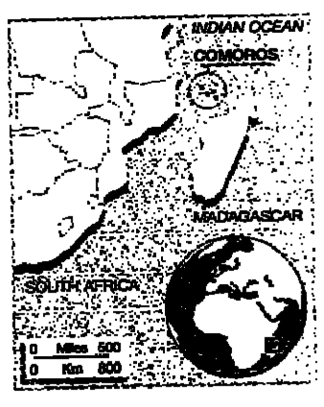
After hundreds of French paratroopers, marines and infantry had fanned across the main island of Grand Comore following yesterday's pre-dawn aerial and naval assault, Mr Denard, a 66-year-old French adventurer, prepared to negotiate his surrender.

Last night the French Defence Ministry, which had earlier announced that Mr Denard had already surrendered, retracted the statement and said he was still boled up in the Kandani barracks in Moroni, the islands' capital, surrounded by French troops.

"We are waiting for him to take his decision and we hope that will be done quickly," an official said. Mr Djohar had been handed over unharmed to the French embassy.

French officials said four or five Comorans had died during the military intervention and that about 10 people were injured.

In Paris, the French foreign ministry said Mr Caabi Elyachroutu Mohamed, the Comoros prime minister, who had sheltered in the French embassy since the beginning of the attempted coup, would now head a broad-based national unity government. The prime minister was reported as having granted an amnesty for Comoran rebels who had fought alongside Mr Denard.



The unpopular President Djohar, who had throughout the crisis been held by Mr Denard as a potential negotiating card, was expected to be offered asylum in France.

France, which called up troops from its bases on the islands of Mayotte and Reunion and in Djibouti, had initially appeared to turn a deaf ear to pleas by Comoros politicians for it to honour a 1978 security agreement with the islands, scene of some 17 coups since independence. Last week Mr Alain Juppé, the prime minister, had said there was "no question" of an intervention.

However, officials in Paris said yesterday that President Jacques Chirac, anxious not to give the impression to friendly African countries that France still gave its tacit backing to Mr Denard's African escapades, had given orders for an operation 24 hours after the raid six days ago by Mr Denard and two dozen fellow mercenaries.

The collapse earlier this week of a political coalition set up by coup leader Captain Ayombo Combo to lead the Comoros to elections, and growing signs of hostility among the islanders toward the mercenaries, must also have encouraged Paris to give the final order.

Mr Denard's prospects now look bleak.

In 1989, following the death of previous Comoros President Ahmed Abdallah, he was allowed to fly out to exile in South Africa under the watchful eye of French troops. This time South Africa has refused to take him in and France has promised to put him on trial if he was caught.

Quizzed about his future on French television yesterday, Mr Denard's reply was characteristically blunt: "I think it would be Le Sante," he said, referring to one of France's main prisons.

The economy Many manufacturers in region expect to cut working hours amid faltering exports

Companies warn of slide into recession

By Paul Cheeseright in Birmingham and Gillian Tett in London

Business conditions are now gloomier than at any time in the past two years, companies in the West Midlands warned yesterday. Many manufacturers in this important industrial region expect to cut working hours towards the end of the year amid faltering exports.

The warning reflects a sharp change in mood in the West Midlands, which is likely to fuel concern about the state of the economy. The region was among the first to signal recovery three years ago.

Recent official figures, which were collected two to three months ago, have suggested that manufacturing output and export growth have slowed. Treasury officials and most City economists insist that this fall will be reversed later this year, as overseas demand picks up and consumer spending rises. However, business leaders at the West Midlands Confederation of British Industry council yesterday argued that the UK could drift back into recession unless there was a change in government policy. They called for moves to stimulate the housing and construction markets and for cuts in interest rates.

Mr Jeremy Woolridge, chairman of the regional council, said: "This is a temporary slowdown which could be turned round if some proactive government action is taken. If they just sit and watch it, we might find ourselves back in the recession."

Meeting in Birmingham yesterday the 45 members of the regional council drew attention to the high level of stocks held by companies and predicted that these would lead to short-time working.

The automotive sector was suffering particular problems, they added. Figures published earlier this week showed a sharp fall in national car exports during the summer, and Ford recently announced plans to reduce production at its Halewood plant in north-west England.

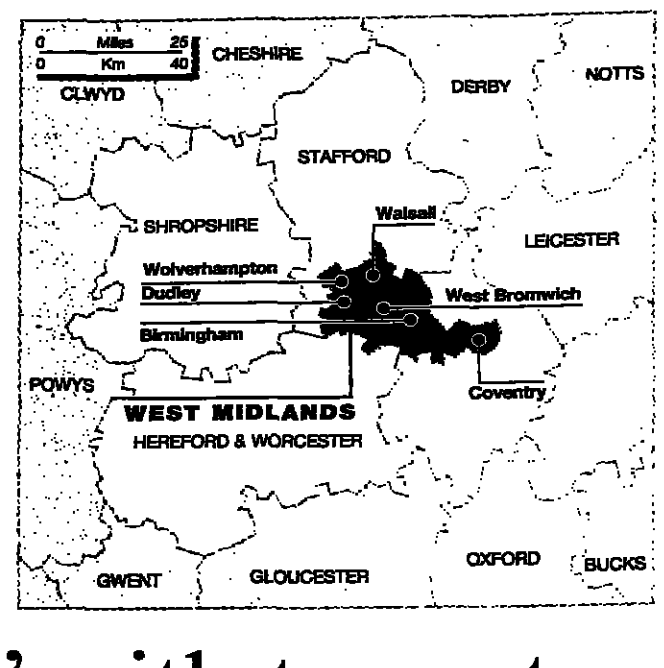
Other manufacturers also predicted change: "It's a bit quieter since July; it's a bit tougher to get the orders and inquiries are not so buoyant," said Mr Howard Marshall, managing director of Ash & Lacy, the Birmingham metals processor. He acknowledged that stocks could be too high after a build-up in the first four months of the year.

Mr David Groves, chairman of Grove Industries, a Stratford-upon-Avon private engineering group, reported that "there are one or two traditional areas where there are cutbacks in the manufacturing schedules," mentioning the automotive sector, waste and office flooring.

These comments mark a sharp change of sentiment since last month when the local CBI canvassed local members and found that order books were healthy and that, although some companies were not working at full capacity, the reduction was insignificant.

The CBI in London is due to publish its next quarterly survey of manufacturing across the country later this month.

Meanwhile the Treasury insisted that the "fundamentals in the economy remained healthy – we are looking at sustainable growth."



IMF warns against 'backsliding' with tax cuts

By Robert Chote, Economics Editor, in Washington

The International Monetary Fund yesterday warned Mr Kenneth Clarke, the UK chancellor of the exchequer, not to cut taxes in November's national Budget unless the impact on government borrowing was offset by reductions in public spending plans.

In its latest World Economic Outlook the Fund said it was important for the UK to "avoid slippages in fiscal consolidation efforts", noting that public debate about tax cuts had highlighted the risk of "backsliding". Mr Michael Mussa, the IMF's economic counsellor, said that government revenues were rising more slowly than expected because economic growth had eased.

The IMF also warned that the government had not yet done enough to establish the credibility of its anti-inflation policy. Mr Mussa said it was important to consolidate the recovery through a period of more moderate growth and that "the evidence seems to be that the economy remains a bit weak". He added that it was too soon to be sure whether interest rates would need to rise again.

The Fund expects the UK economy to grow by 2.7 per cent this year compared with the 3.2 per cent it predicted in its last published forecast in April. Growth is then expected to accelerate to 2.9 per cent in 1996, a slightly more optimistic prediction than in both the Fund's April forecast and its subsequent unpublished summer forecast.

The IMF believes that there is still slack in the UK economy and that output will be about 1 per cent below its potential level next year. This "output gap" should be eliminated by the end of the decade, by which time government borrowing will have dropped only to 0.6 per cent of national income rather than being eliminated entirely as the government has predicted in its last two budget statements.

Unemployment is meanwhile predicted to drop gradually from 8.3 per cent of the labour force this year to 8.1 per cent in 1996. This reflects a forecast of 0.6 per cent employment growth in both years, downgraded from April's predictions of 1.4 per cent for 1995 and 0.9 per cent for 1996. The current account deficit is meanwhile expected to widen from 0.3 per cent of national output last year to 0.7 per cent this year, before narrowing again to 0.4 per cent in 1996. In April the Fund predicted a current account deficit of 0.2 per cent of national income in both 1995 and 1996.

The outlook for inflation is also slightly more threatening than it appeared in April. The Fund is now predicting that the government's target measure of underlying retail price inflation – which excludes mortgage interest payments – will accelerate from 2.9 per cent this year to 3 per cent in 1996. In April it had predicted that the annual rate of price increases would drop next year to 2.8 per cent. The government wants underlying inflation at or below 2.5 per cent from the spring of 1997.

The debate about possible windfall taxes in November's Budget was stirred up again yesterday after a former government adviser said it was still possible the Treasury might adopt the idea. Mr Bill Robinson, once an economic adviser to Mr Norman Lamont, the former chancellor, told a Confederation of British Industry conference that it seemed a windfall tax on the utilities was still being considered by ministers in the run-up to the Budget. The comments from Mr Robinson, who is now director of London Economics, the consultancy, reflect growing speculation in Whitehall that Treasury officials have been attracted to the idea of using such a tax to raise revenue, in a manner similar to proposals made by the Labour party.

Jury told of 'advance fee' fraud

A Staffordshire businessman was the victim of a Europe-wide "advance fee" fraud carried out by a dishonest solicitor and two associates, a London jury was told yesterday.

Mr Reginald Bennett of the aluminium company W.V. Bennett, was persuaded by lawyer Mr Charles Deacon to pay him £750,000, ($1.16m) the jury heard. He was told he would receive £850,000 in return but the money never appeared, said the prosecution.

Mr Deacon had told Mr Bennett his money would be used to release oil money in Switzerland, said the prosecution. "Mr Bennett believed Mr Deacon. Perhaps it was that he simply could not resist such an easy way of making money. That he believed him was a sort of compliment to Deacon's powers of persuasion."

It is alleged that Mr Deacon and his two associates defrauded victims out of £12m by persuading them to pay over fees in exchange for the promise of future loans which never arrived.

To persuade victims to part with their money, Mr Deacon claimed high-level contacts with former US president Mr George Bush and others, the court has heard.

Mr Deacon, of Newcastle-under-Lyme and Mr James Fuller, a former salesman of Kidsgrove, Stoke-on-Trent, have variously denied 11 charges of deception, conspiracy to defraud and theft between June 1990 and July 1992.

The third alleged fraudster, Mr John Savage, who has since died, was the subject of an investigation by the US Federal Bureau of Investigation, the court heard.

UK NEWS DIGEST

Top US official starts talks with Ireland parties

Ms Nancy Soderberg, staff director of the White House National Security Council, met leading Northern Ireland politicians in Belfast yesterday at the start of a week-long visit to Ireland. She was accompanied by Admiral William Crowe, US ambassador to Britain.

US officials described her talks, which will move to the Republic of Ireland before she returns to Washington, as a fact-finding exercise. Here first meeting yesterday was with Mr David Trimble, leader of the pro-British Ulster Unionists, the largest party in Northern Ireland, in a bid to break the impasse over the Northern Ireland peace process.

The Ulster Unionist Party's new leader David Trimble was among the first due to meet with who was accompanied by the US Ambassador to Britain, Admiral William Crowe. Admiral Crowe was asked after the meeting if he thought it was President Bill Clinton's role to put pressure on the nationalist Sinn Fèin party and on the Irish Republican Army. "No, I do not," he replied. "Most of the world wants the President of the United States to put pressure on somebody or other. This is your negotiation, not ours."

US officials said Ms Soderberg would not offer any specific proposal. But her visit, coming ahead of the planned presidential visit to Belfast, Dublin and London at the end of November, will be seen as evidence of US concern to restore momentum to the stalled 13-month-old peace process.

Mr Trimble told reporters after meeting her that the IRA would still need to take its weapons out of commission before Sinn Fein could be admitted to all-party talks on the future of Northern Ireland. *John Murray Brown, Dublin*

Mutuality benefit stressed

Savers and borrowers with Yorkshire Building Society should benefit next month from better interest rates as the society shifts its strategy to underline to members the benefit of being part of a mutually-owned organisation. Building societies are mutually owned savings and loans institutions which face increasing competition from banks.

The move, which will cost £20m ($31m) next year, will put pressure on other societies which have said they want to pass on to customers the benefits of mutuality. Most of the large societies have announced or are likely to announce moves to become public limited companies which should give their members bonuses of a few hundred pounds each. Societies which want to avoid this course have felt increasingly defensive about how to make customers see the benefit of remaining mutual. Yorkshire's scheme will reinforce its own position as a society determined not to be taken over, but not all of those which wish to remain independent and mutual will have the capital strength to make a substantial offer. Just over half the cost of Yorkshire's scheme will go in cutting the standard mortgage rate to 7.85 per cent – just 0.12 percentage points above the rate currently offered by Cheltenham & Gloucester, the mortgage lending arm of Lloyds Bank.

Alison Smith, Financial Staff

Drugs seized near Heathrow

Police found 2m capsules of the sleeping drug Temazepam in a truck near London's Heathrow airport. A raid on a small industrial estate where the truck was found was part of a much wider undercover operation. Four men were arrested after the find in the truck. Two were released without charge and the remaining two are expected to be questioned for some time as the investigation is widened. Temazepam is Britain's most prescribed sleeping drug, but has recently become popular among drug addicts. They mix it with heroin and inject it.

PA News

Reinsurance ruling by court

Reinsurance companies, which protect conventional insurers against big losses, cannot avoid paying claims on policies on the grounds that they had not been authorised by government regulators, the Court of Appeal in London has ruled. Mr Roger Enock, partner at Freshfields, the law firm, described as "a landmark decision" the judgment in the case of Group Josi Re, the Belgium reinsurer. Group Josi, which sold insurance in the London market, had sought to avoid liability on policies sold before a change in the law in 1986.

Ralph Atkins, Insurance Correspondent

Tourism heads for record

A record total of 2.62m overseas visitors came to the UK in July; the previous highest monthly total was 2.58m in August last year. The July figures mean the total number of visitors for the first seven months of the year is 12.85m, 11 per cent up on the same period last year. They spent £6.06bn, ($9.35bn) a 15 per cent increase over last year.

Mrs Virginia Bottomley, National Heritage Secretary, said the figures were further evidence that the UK was heading for a record year for overseas visitors. Mr Anthony Sell, chief executive of the British Tourist Authority, said the record figures were no reason to relax efforts. "We lost market share during the late 1980s and early 1990s and now need to claw that back." *Diane Summers, Marketing Correspondent*

IBM awards vending deal: Compass, which in July became the world's biggest contract catering company with the FFr4.5bn purchase of Eurest International, has won a five-year contract with IBM in the US. Canteen, the group's US subsidiary, said yesterday that the contract was worth $250m (£161m) to revenues. Canteen will provide both food and vending services to more than 100,000 IBM employees on 29 sites.

Data contract: The Ordnance Survey, the UK national mapping agency, has signed a contract with European Geographic Technologies, a Netherlands-based subsidiary of Navigation Technologies of California, which makes databases for electronic car navigation systems. Under the agreement it will supply specialist data products.

Workers set to win EU rights over consultation

By Robert Taylor, Employment Editor

British workers will have the legal right to be consulted by their employers over collective redundancies and transfer of ownership in order to comply with European law under a UK government regulation to be announced today.

The measure, which is expected to win parliamentary approval later this month, follows last year's judgement by the European Court of Justice in Luxembourg that the UK was not fully adhering to the EU directives about the rights of workers to representation.

Union leaders believe the government has decided to do the minimum necessary to meet the court's ruling. The government's measure is expected to require all UK employers to consult their workers either through a recognised trade union or a representative body of employees in each company elected by them to be consulted on any collective redundancy transfer of the company's ownership.

Union leaders fear that the government's proposal will not require the creation of permanent workplace consultative bodies. They also believe the government will enable employers to bypass and weaken recognised unions. They also dislike the probable provision which will limit use of the measure only to cases of redundancy and transfer of ownership that cover more than 20 employees over a 90-day period.

It was as long ago as 1975 that the UK transposed the EU directive on collective redundancies into domestic law. In 1981 the UK passed legislation to implement the EU directive on transfer of undertakings.

But the European Commission was dissatisfied with the UK's limited implementation of the two directives and took the UK to the European Court for its adjudication.

The court ruled against the UK position, arguing its domestic law to ensure employee consultation was unsatisfactory.

The judges said Britain had to modify the legislation, enabling all employees not just those in recognised unions to enjoy representation in collective redundancy and transfer of undertakings.

Reform may aid financial advisers

By Alison Smith in London

A wide-ranging review of financial services regulation which could reduce the burden on retail investment companies was announced yesterday by Mr Andrew Large, chairman of the main City regulator.

Mr Large, who heads the Securities and Investments Board, said that since the introduction in January of the regime requiring life assurance, pensions and investment sales agents to give more information to customers, regulators needed to see whether there was a "disclosure dividend" from which companies should benefit.

"We must now consider whether there is a trade-off between better quality disclosure to the customer and other regulatory constraints on retail investment firms," he said in the second annual Britannia Caledonian lecture in Glasgow.

He called for a look at the cumulative effect of the controls now in place to see whether they amounted "to more than is necessary in a better-trained, more transparent, better disciplined retail sector".

His comments will be welcomed by many life assurance and investment companies which believe that regulation is too prescriptive and expensive. In particular, some have complained about the costs of meeting new training standards, and about how the disclosure regime has slowed the selling process and so affected sales volumes. However, the detailed rules on sales practices which he suggests might be superseded by a more supervisory system of regulation were themselves put in place because the financial regulators were not satisfied with the standards companies adopted under the broader regime which was set up when the Financial Services Act 1986 was implemented.

The shift to supervisory techniques, which focus more on the organisations' structures than on devising rulebooks, was one of three areas Mr Large highlighted for inclusion in the review. The others were the scope for weeding out "mindless box-ticking"; and whether the structure of the sector should be changed.

This idea of looking again at the split between sales agents who sell the policies of just one company and those who give independent advice, and perhaps allowing some advisers to be linked to more than one company in a "multi-tie", would attract great controversy within the sector. Some life offices which sell through independent advisers believe this change could undermine their method of selling.

Mr Large said he expected regulators to seek comments from the companies and from consumer representatives over the course of next year, though he would not set a date for implementing any changes.

He acknowledged that it was difficult to alter the regulatory regime while the problem of compensating the victims of bad advice to take a personal pension was so far from resolved.

Eric Turner, a curator at London's Victoria & Albert Museum, is pictured with a part of Charles Babbage's Difference Engine, an early version of a calculator, which was yesterday sold at auction for £176,750 ($279,265). It had been expected to fetch around £50,000 at Christie's in London, but a telephone bidder acting for the Powerhouse science museum in Sydney, Australia, secured the item

Power groups' freight plan

By Charles Batchelor, Transport Correspondent

British Nuclear Fuels and National Power, the electricity generator, are to launch bulk freight services on the UK rail network within the next few weeks in the first test of the government's commitment to bringing new operators on to railways.

Both companies have previously hired train crews and locomotives from British Rail, the state network. For their new venture they have recruited their own drivers and bought their own locomotives and, in the case of National Power, their own wagons.

Bulk freight movements are at present handled by three regional, soon-to-be-privatised freight companies created from BR's Trainload Freight division but the government has said it wants "open access" for new freight operators. This contrasts with the passenger rail network where open access has been postponed until 1999 to give the franchised train companies a chance to get established.

Attempts by new entrants to establish a foothold in the freight market have been frustrated by difficulties in obtaining secondhand locomotives, the high cost of insurance and the complexity proving that their safety procedures are effective.

National Power has bought five new locomotives from General Motors of the US and 85 British-designed wagons. These will carry 8m tonnes of coal a year – a third of the company's total requirement – from the Selby coalfield to the Drax power station in North Yorkshire. The company has made a total investment of £20m and recruited 50 people to run it. Former BR drivers have been employed and National Power has established its own maintenance depot at Ferrybridge, West Yorkshire.

National Power said that running its own freight operation will put it in a better position to negotiate with the former BR freight companies over its contracts with them and give it some spare capacity to sell to third parties. It plans to start running its trains once its safety case has been approved by Railtrack.

BNFL has set up a subsidiary, Direct Rail Services, to take over the management of its freight operations. The company has bought five secondhand locomotives.

German court clears Leeson transfer hurdle

By Wolfgang Münchau in Frankfurt and John Gapper in London

THE BARINGS COLLAPSE

A German high court has cleared the first legal hurdle for the extradition of Mr Nick Leeson, the futures trader wanted by Singapore on a series of fraud charges in connection with the collapse of the Barings merchant bank.

The decision is only the first in a series of legal and political steps required under German law. Lawyers for Mr Leeson, who is held in a Frankfurt jail, yesterday said they would appeal to the German Constitutional Court.

The Frankfurt court ruled that 11 of the 12 charges brought by Singapore constituted admissible ground for extradition. They include three charges of forgery, two charges of fraud against Baring Futures Singapore and six charges of fraud against Simex, the Singapore futures exchange.

The high court struck out one of the four forgery charges, because the alleged offence would not have been punishable under German law. This relates to a charge that Mr Leeson forged a document, which he produced as a photocopy without pretending to present an original.

Mr Hans-Hermann Eckert, a Frankfurt prosecutor, said that Mr Leeson's "chances of not going to Singapore are now very small". He said that "according to the information from the German embassy in Singapore, the minimal legal standards are guaranteed, and he will receive a fair trial."

Mr Eckert, who was visibly elated by the verdict, said that Mr Leeson could theoretically be on his way to the airport by the end of next month. But this is thought highly unlikely, given the likelihood of further legal action.

The matter will go for a final decision to the Justice Ministry in Bonn, a process that normally takes between four and six weeks. If Bonn concurs, the authorities in Frankfurt will then be able to go ahead with the extradition.

However, if a full appeal to the Constitutional Court is allowed, there could be a delay of up to a year. Mr Stephen Pollard, Mr Leeson's British lawyer, said there were clear grounds for appeal on at least eight of the charges.

Mr Pollard criticised the verdict, saying it appeared "in various respects to be inconsistent and wrong in law". He said that an appeal would be made to the constitutional court within the time limit of a month.

In its argument, the High Court stressed that Germany operates a legally binding extradition agreement with Singapore over crimes that are punishable by law in both countries, a standard restriction on extradition.

A key task for Mr Leeson's lawyers will be to build up public support inside Germany in order to exert political influence in Bonn. Unlike in the UK, the Leeson case has attracted only little publicity in Germany.

TV channel bidders must give costings

By Raymond Snoddy in London

Bidders for Britain's new Channel 5 television operating licencyesterday se have been given until tomorrow to confirm details of the hourly sum they intend to spend on programmes.

The late request from the regulatory body the Independent Television Commission has bemused the bidders; Virgin Television; Channel 5 Broadcasting, which groups MAI, Pearson (owner of the Financial Times), and CLT of Luxembourg; UKTV, the consortium put together by CanWest of Winnipeg; and New Century, the BSkyB-Granada consortium.

It comes more than five months after comprehensive bid application documents were first submitted and at a time when the ITC members should be starting the final stages of making their decision. The letters point out that the average cost per hour of ITV programming is £43,000 ($67,940) and £28,000 for Channel 4. The bidders are then asked to confirm their costs per hour.

The figures range from around £11,000 an hour to more than £16,000. It is not clear whether the ITC is showing signs of concern at the relatively low figure for Channel 5 or whether the commission is gathering material to help rank bidders in preparation for making an award on "exceptional quality".

Bidders argue that the cost per hour depends on whether applicants are broadcasting throughout the night.

Labour party conference Hopes of renationalisation

Majority stake in rail network a policy option

By Robert Shrimsley, Lobby Correspondent

Labour may take a majority interest in a privatised Railtrack as a cheaper alternative to trying to renationalise the entire company if the government-planned flotation goes ahead.

Close aides of Mr Tony Blair, the party leader, made clear that there was no real likelihood of an incoming Labour government being prepared to spend the estimated £2bn ($3.1bn) needed to take the Railtrack network back into public hands. Railtrack is to own the track in the state rail network, but not the trains.

Mr Blair himself yesterday stuck rigidly to the formula used in his speech on Tuesday when he said the railways would be "publicly owned and publicly accountable". However, one senior aide made clear that this did not mean full renationalisation and that a number of alternative measures would be examined if the flotation succeeds. In particular he suggested taking a 51 per cent stake in Railtrack.

This would be a particularly attractive plan should a Labour government decide to float only 51 per cent of the shares, retaining 49 per cent, an option expected by a number of observers. If that were to happen Labour need buy back just 2 per cent of the total shares to take ownership of Railtrack. Party figures are reluctant to overplay this idea for fear that ministers will float the entire company to frustrate the buyback.

"What we are saying is that we don't know how things will be when we get in, but that we may not wish to devote all the money from our first public spending round to this one issue if there is a better way of achieving the same thing," said one party official.

Interviewed on BBC Radio, Mr Blair reiterated that there would be no "blank cheques" on how a Labour government might take control of the network and refused to use the word "renationalisation".

"We have to see what the government does. We don't yet know how it is going to privatise [the network]." Labour leaders are increasingly confident that the government will not meet its privatisation timetable and may fail totally to sell off the network.

Spin doctors panic over OJ

By Robert Shrimsley and Raymond Snoddy

Details of Labour's attempts to manage the national news media emerged yesterday with the publication of a letter which tried to cajole the television companies into not heading their news bulletins with the OJ Simpson verdict.

The incident reflected the mounting concern of the party's spin doctors yesterday that the trial verdict, delivered at 18h00 British time, would overshadow the television coverage of Mr Tony Blair's setpiece speech to the party conference.

Mr Alastair Campbell, Mr Blair's press secretary, faxed an urgent letter to Mr John Birt, the director-general of the BBC, and Mr Nigel Dacre, the editor of ITN.

His letter stated: "Some of your journalists have suggested to us that we are unlikely to get as much coverage for the leader's speech as in previous years because of the OJ Simpson trial verdict. It has even been suggested that there is little chance of Mr Blair's speech leading your bulletins."

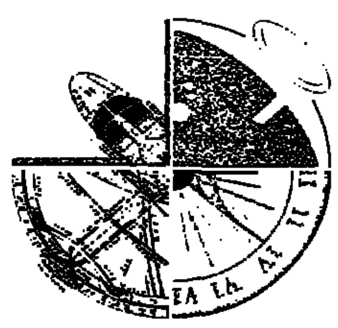
It concluded: "Whilst of course news judgments must be made in the light of other stories on any particular day, and whilst I understand there is much interest in the verdict, I would implore you not to lose sight of both the news value and of the importance to the country of Mr Blair's speech."

The BBC did lead both its evening bulletins with Mr Blair's speech. However, it stressed yesterday that Mr Birt had not passed the letter on to the programme editors.

ITN, which led both its bulletins with the Simpson verdict, attracted audiences of 10.3m and 7.6m, while the BBC attracted 6.6m and 4.5m for its two broadcasts, according to unofficial figures from ITN.

TECHNOLOGY

Worth Watching · Vanessa Houlder



New clue to streptococcus

The bacterium *streptococcus pneumoniae* causes illnesses such as pneumonia, sepsis and meningitis. But some 40 per cent of people harbour the bacteria in the noise and throat without suffering any symptoms.

Research carried out by scientists at the Laboratory of Molecular Infectious Diseases at Rockefeller University and elsewhere suggests that the activity of the bacteria depends on the inflammatory activation of the target cells. This gives the bacteria access to a cell-surface receptor, normally used to bind the hormone platelet-activating factor (PAF).

The elucidation of this mechanism, reported in today's Nature, is likely to prompt researchers seeking potential therapies to consider drugs that work by blocking PAF receptors.

Rockefeller University: US, tel 212 3278276; fax 212 3278688.

Easier-to-use testosterone patch

Hormone replacement using skin patches is well-established for women but relatively new for men, *writes Daniel Green.* That may change after regulatory approval this week in the US for SmithKline Beecham's testosterone skin patch to treat under-activity of the testes.

Traditionally, treatment is by injection into a muscle, or by skin patch applied close to the testes. The SmithKline product, called Androderm, can be applied on the trunk, thigh or arm.

SmithKline Beecham: US, tel 215 7517074; fax 215 7517655.

'Piezo' valves could cut car emissions

"Piezohydraulic" injection valves that operate 10 times faster than conventional valves could sharply cut emissions from car engines, according to developers.

Siemens is developing a valve made of a stack of layers of a piezoelectric material, which expands when a voltage is applied. The thrust is amplified by a hydraulic mechanism. These valves respond within 0.1 millisecond to voltage pulses coming from the central control unit, allowing precise control of the injection process.

Siemens: Germany, tel 49892340; fax 49392824.

Early warning on traffic jams

A device that warns drivers of traffic jams using information gathered from sensors on the motorway network was launched in the UK this week.

Trafficmate, which is aimed at the mass market, uses speech technology to provide audible messages about traffic flow and delays within 10 miles of the vehicle's position. It is being launched by Trafficmaster, which collects information from a network of 2,400 infra-red sensors. The information is sent to transmitter stations, where it is coded and transmitted by radio signal to a unit on the car dashboard.

The unit and a "key" giving access to 12 months of information cost about £50; later information keys cost £24.

Trafficmaster: UK, tel (0)1908 249800; fax (0)1908 200334.

Permeable mould protection

A lasting, environmentally friendly technique has been developed in Sweden to combat mould in the walls and ceilings of food production and processing industry plants.

Most surface treatment methods are made from impermeable paints which prevent surplus moisture escaping. Kefa International of Stockholm says its BioRid method uses a permeable protective layer which allows the moisture condensing in the underlying building material to pass through. Since it kills the micro-organisms by drying them out, it contains fewer environmentally harmful components than conventional treatments.

Kefa International: Sweden, tel 86002470; fax 86593171.

Louise Kehoe and Sheila Jones on the battle between Netscape and Microsoft over software for the Internet

A David and Goliath fight

For all of his success in outwitting the likes of IBM to become the leader of the world's biggest software company, Bill Gates, chairman of Microsoft, has long said that the competition he most feared would come from a software start-up with breakthrough, innovative technology.

Netscape Communications may be such a company. Founded by Jim Clark – who also formed Silicon Graphics, the leading 3D computer workstation manufacturer – and Marc Andreessen – a young programmer who helped to create the original software for the Internet's World Wide Web – Netscape burst on to the scene about 18 months ago.

The company has grown rapidly to become the recognised leader in Internet "browser" software with an estimated 10m users. In August, Netscape also became the idol of Wall Street with its spectacular debut on the Nasdaq stock exchange.

Yet as Netscape is quickly learning, playing David to Microsoft's Goliath is a perilous role. The young software company is now struggling to maintain its credibility, after an embarrassing breach of its "secure" software, and fighting it out with Microsoft in a bare knuckle public relations brawl.

Netscape got its break partly because Microsoft was slow to recognise the rising popularity of the Internet. Now, with the launch of Windows 95 behind it, the software industry leader has awakened to the opportunities of the global computer network and appears to have turned its guns on Netscape.

Netscape would prefer to avoid a direct confrontation. "There is a tremendous effort to polarise us against Microsoft," says Clark. "We're not in the business of going after their desktop software business. We are, in fact, going after a new market."

That new market is potentially, however, one of the most lucrative prospects for the software industry. The prize in this looming battle is leadership in the emerging market for software that enables secure electronic commerce and business communications via the Internet. With an estimated 50m computer users now hooked up to the global network, billions of dollars of international trade may be at stake.

Netscape and Microsoft have both in recent weeks launched competing and incompatible technologies designed to ensure the security of credit card payments made over the Internet, an essential tool if electronic commerce is to grow.

A war over technology standards, which could delay the progress of electronic commerce and potentially impede Netscape's growth, now seems inevitable.

Just three months ago, Visa International and MasterCard International, the two leading credit card payment processing groups, vowed to work together to create a standard method for secure bank card Internet transactions.

Last week, however, when Visa and Microsoft unveiled their new Internet security technology, MasterCard was noticeably absent. So too was Netscape, which has been working with MasterCard on software for secure payments.

A war over standards, which could delay the progress of electronic commerce, and may impede Netscape's growth, now seems inevitable

Netscape and MasterCard complain that Microsoft and Visa have broken ranks by backing a "proprietary" approach to creating security software.

Although Microsoft says it will publish the specifications for its new Secure Transaction Technology (STT), Netscape charges that by withholding the source code (the original computer program) for STT, Microsoft is attempting to establish its control over technology that will be critical in the era of electronic commerce.

Netscape is making the source code for its competing Secure Courier software for credit card payments available to all comers at no charge. Software application developers will therefore be able to incorporate the technology in their programs.

"This is the way that standards are created on the Internet," says Mike Homer, Netscape marketing director. Microsoft, he claims, will charge third-party software developers licence fees if they want to incorporate STT in their programs. Moreover, Microsoft aims to extract a "transaction fee" every time the software is used to buy or sell goods and services on the Internet, according to Netscape.

"As a result of keeping it proprietary, Microsoft will be able to get a fraction of each transaction that occurs," says Clark. "If that's what the world wants, then they'll start paying Microsoft. It's a simple choice. Ours is an open specification, the STT is not.

"We think most people do not want to be locked into a proprietary software that charges a fee each time you make a transaction. There are more financial institutions in the world than Visa. Ask Barclaycard, for example, if they want to pay a fee to Microsoft for each transaction."

For its part, Microsoft says that it has not yet worked out the "business model" for STT, although it has no plans to freely distribute the source code.

MasterCard says that it, too, is disappointed that Microsoft and Visa have adopted a proprietary approach. "Establishing one standard for card purchases on the Internet is absolutely the right thing to do for consumers, merchants and financial institutions worldwide," according to H. Eugene Lockhart, chief executive of MasterCard.

Unless a compromise is found, there will be two incompatible credit card security systems on the Internet. This would force merchants and banks to choose sides, or support both at added expense.

In an attempt to avert a face-off, Netscape and MasterCard are seeking the support of other interested parties. This week, for example, they won endorsements from IBM, GTE, the communications group, and CyberCash, a pioneer of Internet cash payments.

Trevor Humphries

Jim Clark at this week's launch of Netscape's latest generation of security software

Netscape's hand has been weakened, however, by recent incidents in which the security features of its browser software – less stringent than those used in its Secure Courier payments system – have been breached.

A flaw in Netscape's browser security was discovered by two "cyberpunks" – computer science students from the University of California at Berkeley – that might enable Internet eavesdroppers to read private messages.

Although there is no evidence to suggest that any users of Netscape software suffered losses and the company has already fixed the security problem, the incident was a setback, Clark acknowledges.

"It was a very foolish oversight," he says. "I don't want to diminish it. It was our responsibility to do a better job and we now have measures in place to do that. It was the result of a young company, growing very fast.

"But we did bring security to the Internet in a way no-one else did," says Clark, in defence of Netscape. "Every system we've shipped in Navigator has had embedded security. Prior to that no-one had."

Having learned its lesson, Netscape has put in place new audit systems to check security software more rigorously. In future, the company will ask the Internet *cognoscenti* – the very people who discovered the Navigator security flaws – to test its software before it is widely distributed.

Microsoft is making the most of Netscape's mistakes as it promotes its own approach to Internet security. It is safe to predict, however, that the cyberpunks will do their very best to crack any security product that the industry leader may offer.

As the marketing battle unfolds, Microsoft must also be wary of the close scrutiny of the US Justice Department, which is continuing its antitrust investigation of the company.

Ian Hart and Rosana Pastor in 'Land and Freedom', Ken Loach's crackling gunpowder trail of a film about the Spanish civil war

Cinema/**Nigel Andrews**

A war between ideologies

Land And Freedom is a picture of the Spanish civil war directed with shrapnel-flying immediacy by Ken Loach. It makes us realise how many war movies are cushioned by hindsight or protected by moralising. Often we have to choose between higher Hollywood silliness and a grand but portentous Euro-fatalism in the style of *La Grande Illusion*.

In Loach's film, written by longtime collaborator Jim Allen, we have a callow Liverpudlian volunteer for hero (Ian Hart) and a confused war-within-war for subject and setting. Stirred by a Spanish Republican's speech at a meeting in his home town, Hart goes to Spain to join a militia attached to the revolutionary socialist party POUM. Instead of a bold glow of anti-fascist unity he finds an ill-funded, ill-knit army advertising its disarray. Rifles blow up in soldiers' faces; a comrade dies in battle asking for a spare bullet; and when not fighting Franco, the militia's half-dozen different nationalities stand in village halls yelling their dissenting views and ideologies.

These scenes are the film's collective *tour de force*. They show why an army quilted from irreconcilable geo-political tempers came apart at the seams. The American wants to woo potential capitalist allies by muting the communist credo; the Frenchman grandstands about bureaucracy; our English hero lobs in earnest, goofy pragmatism. Finally – the movie's tragic punchline – the whole delicate alliance of small anti-Franco forces will be crushed by hard-line Stalinism, as the Soviet Union extends its covert sphere of influence to the Spanish left.

This could have been an Open University lecture masquerading as a movie. But *Land And Freedom* never trades in hindsight pontification. It is a crackling gunpowder trail of "Nows" leading to a final, explosive "Then": a dénouement we sense coming, but never know when or how.

As in any prolonged human crisis, absurdity is mixed in with apocalypse. In one scene opposing Anarchists and Communists, exchanging rooftop gunfire and taunts, keep stumbling across a common foreign language. "I'm from Manchester," says a voice from the opposite parapet. "F–ing hell, I'm from Liverpool," Hart shouts back. Meanwhile an old woman clutching groceries in the middle of the street yells, "You should be killing fascists, not one another!"

Even the romance between our hero and a Spanish *compañera* (Rosana Pastor) develops in a free zone outside sentimentality. The couple's quarrels are joined symbiotically to the larger quarrel between ideologies; and we believe in the polar attraction between Hart's jumpy, gawping, rabbit-eared innocent and the girl's war-weary wisdom, her stoicism bordering on anomie.

The film's framing device is the only disposable section. David's granddaughter discovers his diary after his death, cueing the main story as a giant flashback. Is there a message for our times here – that fascism is alive and well and living in modern Britain? Or did Loach and Allen not have the faith they should have had in a historical story so potent and reverberant that it needed, literally, no introduction.

★

The first two consonants in the name "Pocahontas" serve grim warning. Disney's new animation feature is so PC that we wonder if it comes from the same national film industry that used to treat Indians – sorry, native Americans – as folk who talked funny, scalped you and were best left horizontal on the ground.

For John Wayne or John Ford, now read John Smith. Voiced by Mel Gibson, this blond-haired, strong-jawed, true-life colonist sails across the painted ocean, circa 1607, to imbibe the peace-and-love message from a bead-wearing, pipe-smoking race so progressive that they already dress and behave like 1970s hippies.

In gorgeous landscapes – the camera flies bird-free over silvered rivers and soaring forests – our hero woos the chief's beautiful eponymous daughter. He also pets her friends, a raccoon and a hummingbird, and talks to the ancestral willow-tree goddess. And he tries to stop *his* chief, the wicked, gold-seeking Governor Radcliffe (Ssss), cutting up the forests and raping the land. Will the Indians – sorry, the indigenous Virginians – attack the colonists after one of their tribe is slain in an accidental fracas? Or will John and Pocahontas broker harmony amid the beauteous songs and scenery?

LAND AND FREEDOM
Ken Loach

POCAHONTAS
Mike Gabriel and Eric Goldberg

ASSASSINS
Richard Donner

MY FAMILY
Gregory Nava

The film has overlong love scenes, iffy animal acts, and in the simpering comic twosome of Radcliffe and the cabin boy Wiggins a nasty dash of homophobia. But the landscapes make up for much. All those cataracts and sunsets: all those forests painted like living, breathing Japanese water colours; all those river-viewing crags that characters go to stand on whenever the screenplay runs out of dialogue and is reduced to the mandate, "Look noble, mythic and timeless".

Assassins continues the strange story of Sylvester Stallone. As one action flop succeeds another in the ex-Rambo's filmography – *The Specialist*, *Judge Dredd*, now this – his salary climbs ever higher and higher. He now stands on the topmost Hollywood crag in history, commanding $20m per picture.

I blame the parents. A childhood injury gave Sly the semi-paralysed lip that causes that intriguingly impassive face and croaking bass lisp. And having a hairdressing father who christened you "Sylvester" must propel you into a life of near-demented compensatory machismo.

We have a sneaking fondness for this actor even when we hate his movies. *Assassins* is about two rival hit-men, one old, one young (Antonio Banderas), who chase each other all over L.A. and Puerto Rico. Directed by Richard Donner, it resembles a live-action Road Runner cartoon, with commensurate implausibility. In the last sequence we are asked to believe that no one notices the pretty woman appearing to talk loudly to herself at a café table (heroine Julianne Moore speaking into a Sly-connected pin-mike); let alone the maniacal fellow (Banderas) brandishing a rifle in clear view on a third-floor balcony.

Better but not perfect is *My Family*: the tale of three generations of a Mexican immigrant family in L.A. Written and directed by Gregory Nava (of *El Norte*), it sprawls warmheartedly across 60 years while never quite seeming to leave the rehearsal room. A dozen good actors emote like crazy – Edward James Olmos, Jimmy Smits, Elpidia Carillo, Esai Morales – while Nava passes round the script full of knife fights, romances, jail sentences, family quarrels, hopes, dreams, philosophisings. In the end the film is doomed by its earnestness: by a sense that the feelings are being sincerely telegraphed rather than sincerely felt. We wish Nava had confined himself to writing the script and left the direction of this Latino *Godfather* to the executive producer, one Francis Ford Coppola.

Theatre/**Ian Shuttleworth**

Pinter - prince of comedy

One of the most remarkable things about seeing Harold Pinter act in his own plays is that they generally *brood* much less when he is around. The eloquent pauses and significant obliquenesses are all in place, but Pinter understands the extent of the comedy in his work.

Not that humour is that difficult to spot in *The Hothouse*, which he wrote in 1958 but "set aside" until 1980, and now transfers from Chichester's Minerva Studio in David Jones's fine production. The shadows are all cast by the scheme of the play rather than its execution. The setting of an undefined "rest home" in which the inmates, known only by numbers, are routinely abused and electronically tortured by the staff whilst the man in charge blusters inanely and his subordinates jostle one another for the succession, offers pre-echoes of *One For The Road* and *Mountain Language*. Yet the actual script is less suggestive of Orwell or Kafka than of Orton.

As Roote, the ineffectual, pompous "chief", Pinter sports both a moustache and a manner reminiscent of *Dad's Army's* Captain Mainwaring. He makes an excellent self-important, retired colonel, unable to string a sentence together at the best of times and gradually subsiding into a whisky haze while his accent becomes broader and more plebeian.

Roote's assistants, Giggs and Lush, are played with equal finesse by John Shrapnel and Tony Haygarth. Shrapnel is a master of arid assiduity, his face a careful blank but seemingly emitting a whir of the turning cogs of a Machiavellian scheme. Haygarth's Lush is sly, insinuating, greased with self-satisfaction as he riles his superior, accusing him of impregnating patient 6459 and murdering 6457.

Lush is the agent of two moments of unimaginably broad un-Pinterian comedy. Having twice had whisky flung in his face for these allegations, the third time he grabs Roote's tumbler and twirls it above his head in a galumphing balletic parody – later extracting his revenge by presenting Roote with an exploding cigar. The mind boggles that Pinter ever wrote such slapstick, let alone between *The Birthday Party* and *The Caretaker*.

As Miss Cutts, mistress of both Roote and Gibbs, Celia Imrie wears a permanent cool smirk, obviously playing her own game throughout. Christien Anholt is all naive idealism as Lamb, who is ultimately sacrificed amid the electrodes of "number one interviewing room". Even here the gags persist, as the disembodied voices of Gibbs and Cutts hector him, "Have you always been virgo intacta?" and "What is the law of the Wolf Cub Pack?"

The play itself lacks a little polish: introducing an entirely new character for the final five-minute scene smells of dramatic desperation. In the end, though, its successes are much more surprising than its flaws. On this occasion, Pinter's famous "weasel under the cocktail cabinet" is wearing a red nose and clown's baggy trousers.

At the Comedy Theatre, London W1 (0171-369 1731).

Concert/**David Murray**

Berio at 70

Luciano Berio is about to celebrate his 70th birthday. Thus on Sunday the London Symphony Orchestra invited him to conduct three of his own pieces, and one by his still-lamented colleague Bruno Maderna (1920-1973).

Birthdays have become *the* excuses for mounting works by the High Modernist composers of the 1950s and '60s – which often need costly rehearsal time but do not guarantee full houses. Serious musicians are the ones who insist upon the celebrations, in the hope that the strength of the music will at last strike home to wider audiences.

When Modernist music first became an exciting ideal Boulez, Stockhausen and Luigi Nono (1924-1990) were the reigning triumvirate, with Berio and Maderna among the promising tag-alongs. It took longer for those two to make their marks; and when they did, it was less through pushing serialism still further than by their seductive, ambiguous sound-worlds.

Berio revived a late, charming exercise by Maderna on Sunday, the *Serenata per un Satellite* (1969: the year explains the title). While soft trills and tremolos sustain the sense of flight in space, solo instruments dispersed around the platform emit their own little lyrical bursts, fragmented and overlapping. The structure and even the length of the *Serenata* are left to the conductor to determine. There could be no safer hands than Berio's for that; what might have been a mish-mash became a shimmering idyll.

Trills and tremolos also propel Berio's own Piano Concerto II, "Echoing Curves" (1988). Like many of his recent works, it is a recomposition and expansion of an earlier one, in this case his 1974 *Points on the Curve to Find*. That was a brilliant *moto perpetuo* study, almost a one-idea piece; Berio allows, tongue-in-cheek, that in many respects it "could have been written with a computer".

The newer work is lusher, often gorgeous. The hammering piano remains at the centre (played here by Andrea Lucchesini with formidable confidence and conviction), while two flanking semi-orchestras pick up its suggestions, colouring and expanding them. There is a wealth of rich, devious harmony, and that typical Berio effect of different sound-planes arranged in space. This sounds like a work which will not go away.

The two works that began the concert are more "occasional", a jokey cartoon after Boccherini and Berio's discreet, languid "restoration" of Schubert's unfinished 10th Symphony. I wanted more of *Berio* Berio.

Rambert Dance's original talent

The Rambert Dance Company is embarked upon its autumn tour. In its second year under the direction of Christopher Bruce, the troupe continues to look in gleaming, exultant shape, and its programming remains imaginatively eclectic. Though I am – to put it mildly – no admirer of the "school of Kylian" dances that Bruce has acquired, his own work has a rare integrity and speaks of an idealist whose brave intentions lead to powerful creativity. Bruce also has an eye for new talent: Mark Baldwin, Per Jonsson and Matthew Hawkins are again represented, and there is a welcome recognition of the importance of Robert Cohan with the revival of *Stabat Mater*. This received its first company performance on Tuesday at High Wycombe's splendid Swan Theatre.

Cohan made *Stabat Mater* in 1975, using Vivaldi's setting of the text. Eight women serve as mirror and accompaniment to the feelings of the central figure, the excellent Sara Matthews. Their dances are restrained yet eloquent, admirable in spacing and imagery. What strikes most clearly in this piece is Cohan's bold use of the Martha Graham style in which he was reared. We see dance worthy of the Earth Mother herself in its density of physical and emotional texture, in its communicative power.

The 20 years that separate Cohan's work from Matthew Hawkins' *Dancing Attendance on the Cultural Chasm* could be 20 decades, so different they are – albeit the chance for Hawkins' creativity is directly owed to the great years when Cohan and Robin Howard made "modern dance" vitally British. Hawkins is a cross-over artist, educated in ballet and plainly an advocate of traditional Cecchetti classicism, but also someone who has worked with Michael Clark and with Merce Cunningham, and has a taste for teases, obliquities, and with a certain delight in effrontery. Despite a mad title and costive programme note, Hawkins is a choreographer.

Dancing Attendance is visually splendid, physically alert, original. The cast are dressed as insects who have known Lacroix couture, with a trio of Moon-maidens in drapery and glittering crescent head-dresses. The score is extracted from Rameau's opera-ballet *Les Indes galantes*, one of the masterpieces of baroque theatre. (Like the Vivaldi, it is admirably played by the London Musici under Mark Stephenson.) Design is by Pearl, a chap who gives no other name; but that does not matter because he is witty and clever. The insect costumes are brilliantly done in browns, black and white, and are sufficiently outré to help establish Hawkins' mood. Lighting by Charles Balfour is no less imaginative. We watch incidents that intrigue, vex, excite, by their curious muscular dramas. Androgynous figures dance and fall – Hawkins has a recurrent and irresistible taste for a moment when a body slumps to the stage as if it were All Too Much – and explore baroque ideas that the music has inspired. I think the piece is too long, but Hawkins' language – a wild yet coherent mix of classicism, Michael Clarkery, baroque gesture, Cunningham manners – is constantly fascinating. I would not pretend to understand what the piece says, other than that Hawkins makes dances I want to see, that he has an original mind, and that Rambert has done excellently well to give him this opportunity and these fine dancers. And at a time when so much dance has the visual appeal of a paper bag, *Dancing Attendance* is the more welcome by reason of its stylish air.

These two pieces are part of a programme which also includes Kylian's *Petite mort* and Naharin's *Axioma 7*, works I can no longer bear to watch. As a note in passing, the Rambert programme book for this tour is admirably produced, filled with magnificent Crickmay photographs and handsomely laid out. Quality tells.

Clement Crisp

Rambert Dance will visit Sheffield, Liverpool, Plymouth, Dartford, Cardiff, Bournemouth and Blackpool during the next two months.

INTERNATIONAL ARTS GUIDE

■ BALTIMORE

CONCERTS
Symphony Hall Tel: (410) 783 8000
● Baltimore Symphony Orchestra: Richard Hayman conducts an orchestral salute to the world's greatest singers; 8.15pm; Oct 5, 6, 7, 8 (3pm)
● The Philadelphia Orchestra: Wolfgang Sawallisch conducts Wagner's "Faust, Overture", "Symphony No.2" and "Rienzi, Overture" and Beethoven's "Symphony No.4"; 7.30pm; Oct 11
GALLERIES
Baltimore Museum Tel: (410) 396 6310
● Celebrating Calder: sculpture, jewellery, drawings and tapestries by 20th century artist Alexander Calder; from Oct 4 to Jan 7

■ BERLIN

CONCERTS
Konzerthaus Tel: (020) 309 21 02/21 03
● Berlin Symphony Orchestra: with oboist Martin Gabriel. Yoël Levi conducts Greig, Mozart and Bartók; 8pm; Oct 7, 8 (4pm)
OPERA/BALLET
Deutsche Oper Tel: (030) 34384-01
● Das Rheingold: by Wagner. Conducted by Jiři Kout and directed by Götz Freidrich. This is the first part of the complete "Ring Cycle" to be performed in October; 7.30pm; Oct 6
● Die Walküre: by Wagner. Conducted by Jiři Kout, and directed by Götz Friedrich; 8pm; Oct 8
● Madame Butterfly: by Puccini. Conductor Sebastian Lang-Lessing, production by Pier Luigi Samaritani; 7.30pm; Oct 13
● Siegfried: by Wagner. Conducted by Jiři Kout and directed by Götz Friedrich; 5.30pm; Oct 12

■ FRANKFURT

CONCERTS
Alte Oper Tel: (069) 134 0400
● Recital Evening: with soprano Barbara Hendricks and pianist Staffan Scheja. The programme includes Schubert, Wolf, Poulenc and Shönberg; 8pm; Oct 4

■ LONDON

CONCERTS
Royal Festival Hall Tel: (0171) 928 8800
● Philharmonia Orchestra: with pianist András Schiff. Kurt Sanderling conducts Beethoven's piano concertos two, three and four; 7.30pm; Oct 7
GALLERIES
Royal Academy Tel: (0171) 439 7438
● From Manet to Gaugin: Impressionist and post-Impressionist paintings from Swiss private collections; to Oct 8
OPERA/BALLET
Royal Opera House Tel: (0171) 304 4000
● Arianna: by Goehr. World premiere directed by Francesca Zambello and conducted by Ivor Bolton. A mixture of contemporary and Baroque music, reinterpreting the myth of Ariadne's abandonment by Theseus. Soloists include Susan Graham, Anna Maria Panzarella, Sheila Nadler and Axel Köhler; 8pm; Oct 4
● The Marriage of Figaro: by Mozart. Conducted by Bernard Haitink/David Syrus and directed by Patrick Young. Soloists include Felicity Lott/Cheryl Studer, Andrea Rost/Barbara Bonney and Robin Leggate/Ryland Davies; 7pm; Oct 7, 10, 13
● Tosca: by Puccini. Conducted by Simone Young and directed by Jeremy Sutcliffe. Soloists include Galina Gorchakova, Johan Bohta and Francis Egerton; 7.30pm; Oct 5, 9, 12

■ NEW YORK

CONCERTS
Avery Fisher Tel: (212) 875 5030
● Daniel Barenboim: pianist plays Beethoven's "Sonata in C", Brahms' "Sonata in F" and Schoenberg's "Three Pieces"; 3pm; Oct 8
Carnegie Hall Tel: (212) 247 7800
● Boston Symphony Orchestra: with pianist Evgeny Kissin. Seiji Ozawa conducts Tchakovsky's "Piano Concerto No.1" and "Symphony No.6". This performance opens the Carnegie's 105th Season; 7pm; Oct 5
● José van Dam: bass baritone in his only New York recital is accompanied by pianist Maciej Pikulski. The programme includes Schumann, Brahms and Wolf; 8pm; Oct 6
● Maurizio Pollini: pianist plays Beethoven's "Sonatas" one to four; 3pm; Oct 8
● New Orleans to Now: with the Carnegie Hall Jazz Band, this concert gives an overview of the history of jazz from early New Orleans through the swing years of bebop; 8pm; Oct 12
GALLERIES
Guggenheim Tel: (212) 423 3500
● Claes Oldenburg: an anthology of works by one of the key figures of Pop art in the 1960's. This exhibition includes a new piece entitled "Shuttlecock"; from Oct 6 to Jan 14

■ PARIS

CONCERTS
Champs Elysées Tel: (1) 49 52 50 50
● National Orchestra of France: with pianist Viktoria Postnikova. Guennadi Rojdestvenski conducts Prokofiev's "Concerto No.1", "Concerto No.4" and "Concerto No.5"; 8pm; Oct 5
● National Orchestra of France: with pianist Viktoria Postnikova. Guennadi Rojdestvenski conducts Prokofiev's "Concerto No.2" and "Concerto No.3"; 8pm; Oct 7
GALLERIES
Centre Georges Pompidou Tel: (1) 42 77 12 33
● Man Ray: recreation of the atmosphere of Ray's post world war two workshop where he produced various furniture. This exhibition consists of paintings, drawings and photographs from the workshop archives; from Oct 4 to Jan 29
● Surrealistic Designs: vision and technique. About 60 masterpieces by artists such as Ernst, Masson, Brauner, Dali, Miró and Picasso; from Oct 4 to Nov 27
Musée d'Art Moderne, Ville de Paris Tel: (1) 47 23 61 27
● Louise Bourgeois: sculptures and drawings from 1938-1995. Significant art works that chart her different styles; to Oct 8
OPERA/BALLET
Châtelet Tel: (1) 40 28 28 40
● New York City Ballet: performs the Robbins choreographed "Watermill" with music by Ito and "The Goldberg Variations" with music by Bach; 8.30pm; Oct 4, 5
● New York City Ballet: in a programme that includes the Balanchine choreographed "Cocerto Barocco" and "Walpurgisnacht Ballet" plus Tanner's "Ancient Airs and Dances" and Martin's "Fearful Symmetries"; 8.30pm; Oct 6,7
● New York City Ballet: performs the Robbins choreographed "Watermill" with music by Ito and "The Goldberg Variations" with music by Bach; 8.30pm; Oct 7 (3pm)
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50
● Romeo and Juliet: music by Prokofiev, choreography by Rudolph Nureyev and directed by Ermanno Florio/Vello Pähn; 7.30pm; Oct 6, 7

■ WASHINGTON

CONCERTS
Kennedy Center Tel: (202) 467 4600
● National Symphony Orchestra: with pianist Horacio Gutiérrez. Raymond Leppard conducts Brahms' "Tragic Overture" and "Piano Concerto No.1" and Schubert's "Symphony No.4"; 7.30pm; Oct 12, 13
GALLERIES
National Gallery Tel: (202) 737 4215
● A Great Heritage: Renaissance and Baroque drawings from Chatsworth consisting of 105 works by artists such as Rembrandt, van Dyck and Raphael; from Oct 8 to Dec 31
THEATRE
Arena Stage Tel: (202) 488 3300
● Holiday Heart: by Cheryl L. West. A play about hope and redefining the family; to Nov 19
Kennedy Center Tel: (202) 467 4600
● Hello Dolly: by Jerry Herman. New production starring Carol Channing; to Oct 8
Studio Theater Tel: (202) 332 3300
● Slavs!: Thinking About the Long Standing Problems of Virtue and Happiness. By Tony Kushner and directed by Dan DeRaey. A surrealistic montage of post-Soviet culture; 8pm; to Oct 8
Woolly Mammoth Tel: (202) 488 3300
● Watbanaland: by Doug Wright, directed by Lee Mikeska-Gardner. Surreal drama of life and longing in an overpowering society; 8pm; to Oct 8

■ ZURICH

GALLERIES
Kunsthaus Zürich
● Bruce Nauman: a comprehensive collection of works by the American artist known for his multimedia audiovisual installations and sculptures; to Oct 8

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European Money Wheel
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17.30
Financial Times Business Tonight

Midnight
Financial Times Business Tonight

Crazy times in the credit culture

BOOK REVIEW

FOOL'S GOLD
By Jonathan Mantle
Sinclair-Stevenson. £17.99. 154 pages

In the summer of 1987 Adam Faith, the pop singer turned actor, bought me lunch in Knightsbridge. When I asked him what his business then consisted of, he replied "corporate finance". I gathered he was marketing share and property deals to wealthy clients. A Faith unit trust was also on the drawing board. Alas, it all crashed in October, along with the global stock market. But there was an alternative: he became an associate of Roger Levitt, the life insurance sales wizard, though there is no suggestion that Faith knew the truth about Levitt's business practices.

Jonathan Mantle's book vividly, if anecdotally, brings back the flavour of those crazy times. Even after shares tumbled, property prices continued to soar, for a while. There was an economic miracle – chancellor Nigel Lawson himself had said so. Simply everyone could get rich quick.

When you unleash sharp salesmen on an ignorant and almost equally greedy public, you are simply asking for trouble. Maybe when only, say, vacuum cleaners are involved there are no terrible consequences. But when you allow the hucksters to sell apparent financial security and prudent investment, all wrapped up in tax relief, with implied government support and regulatory approval, there will be much more at stake and scandals are *bound to multiply*.

There have been financial scams galore down the ages, but Mantle focuses upon the problems that emerged in the late 1980s – hence the book's subtitle, *Tales from the Last Days of the Credit Culture*. The themes include the disaster of the home income plans, when thousands of elderly people mortgaged their homes to invest in bonds that failed to provide the expected income; the saga of Roger Levitt, who was convicted of fraudulent trading after his group collapsed with more than £34m ($53.7m) in debts; the Maxwell pensions scandal, when nearly £440m of pension assets disappeared; and the ultimate in upper-crust rip-offs, the losses at Lloyd's that entrapped and ruined swathes of the Home Counties middle classes who had provided capital for the London insurance market by becoming Names.

Mantle mostly leaves the reader to make sense of it all. This is an impressionistic book, focusing on a few particular cases, like the elderly couple who took out a home income plan in 1989 but, far from gaining income, are now stuck with paying out £100 a month on a mortgage for life.

The analysis, such as it is, comes through interviews with two figures with axes to grind: Professor Jim Gower and Joel Joffe. Gower produced the original report on investor protection for the Department of Trade and Industry in 1984, which paved the way for the Financial Services Act 1986. Joffe had prospered at his old friend Sir Mark Weinberg's insurance company, Allied Dunbar, but later experienced a conversion which has caused him, from his manor house in the West Country, to denounce the hard-selling practices of the life industry.

Mantle previously wrote a book about the Lloyd's disasters, so it is not surprising that the tottering insurance market provides *the best chapter. Here the* salesmen were not only aggressive and unscrupulous but, fatally, they had English class snobbery on their side, inviting participation in (or "membership" of) a glamorous part of the financial establishment. Disclosure, judgment and analysis went out of the window.

In life assurance the author is less well-versed: for instance, the five-year endowment policies which he mentions at one stage do not exist. He willingly accepts the views fed to him by Gower and Joffe. The big failure, he concludes, was that the government (under pressure from the Office of Fair Trading) refused to accept the life insurance industry's recommendation of a fixed maximum commission scale as its solution to the problem of aggressive selling.

But the OFT would argue that the greater mistake was to fail to insist on adequate disclosure of commissions and costs, a change that was fiercely resisted by the life industry right through the 1980s and early 1990s, and was only finally introduced in January this year.

In the end, however, a satisfactory market can develop only when the salesmen are professionalised and the public is educated. Even today this is a remote prospect, and in the late 1980s the tone was set by the likes of Levitt, decked out with alligator shoes, loud bow tie and Davidoff cigar. His opening line at sales meetings was "I've sold £5m of insurance – what have you done?" Yet he talked respectable insurance giants such as General Accident and Commercial Union into investing in his shady empire.

As Mantle points out, the changing climate destroyed one of the lower-tier pillars of the financial community, the bank manager. According to a retired Barclays manager, the personal touch was replaced by objectives laid down by head office, soon to become formal "targets", with performance league tables and incentives. Thus 55-year-old bank managers were replaced by 35-year-old product salesmen.

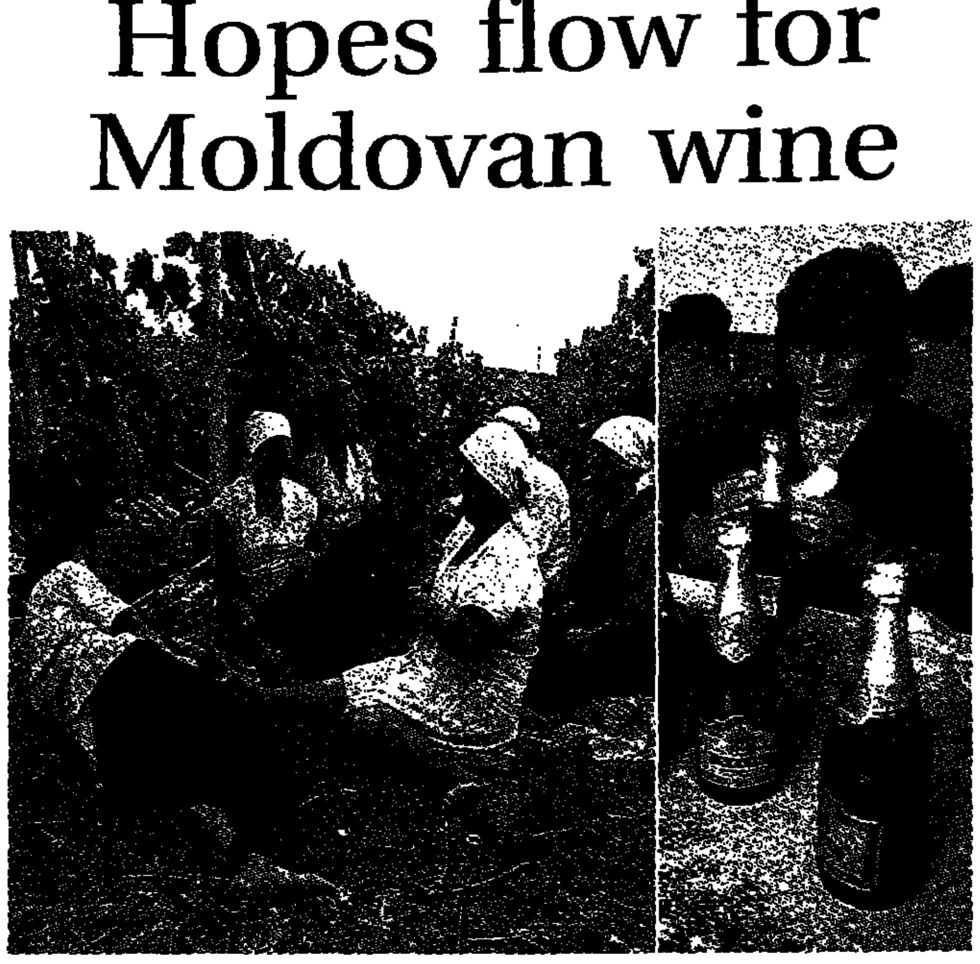
The book is effective in highlighting the confusion of the innocent and ignorant: the *middle-aged woman who* insists she should be compensated for losses when she and her husband handed over money to a crook, the couple who were persuaded that Lloyd's membership would pay school fees for nothing. But the proper analysis of the retail investment industry's agonising growing pains has yet to be written.

As for Adam Faith, he has had a career change. "I've decided at last on the person I am. I am an artist," he is quoted as saying. No unit trusts? No insurance bonds? Perhaps it will now be safe for me to return that lunch.

Barry Riley

The former Soviet republic is looking to the west to boost the industry, says **Matthew Kaminski**

Hopes flow for Moldovan wine



James Hill

Liquid assets: the Vitis-Hincesti winery expects to triple exports to the west by the end of the century

Mr Gheorge Seicas, the chief engineer at Vitis-Hincesti winery in central Moldova, brings out four unmarked bottles. He pours the local chardonnay into ordinary water glasses: the wine is fruity and smooth, although not properly chilled. "And very dry," he adds. "1993 was a good year."

Set among rolling hills covered with vineyards and sunflower fields, Vitis-Hincesti will send 600,000 bottles to the US and UK this year and expects to triple exports to the west before the end of the century.

The winery has forged an alliance with western winemakers to improve its production methods and marketing. Moldovans are proud of their wines and believe that with the right skills, they can expand the market for them in the west.

"Moldovans know everything about wine," says Mr Ion Marduci, general director of IMCO, a company that bottles and exports wines and makes chic labels for local wines. "We're a very humble people who don't like to boast, but I don't think our wines are any worse than French or Italian brands."

Moldova, a largely Romanian-speaking country, seceded from the Soviet Union in 1991. The wine industry accounts for about half its gross domestic product – but production has fallen from 500m litres in the mid-1980s to 200m last year.

Last year Moldova's gross domestic product contracted by 22 per cent. The International Monetary Fund expects it to grow only 1.5 per cent in 1995. Restoring the fortunes of the wine industry is seen as vital to the country's independence and economic recovery.

The disintegration of the Soviet Union is the main cause of the decline. Moldova used to *supply one in three bottles of* wine drunk in the USSR, but sales began to contract under the temperance drive introduced by *Mr Mikhail Gorba*chev, the former Soviet president. The collapse of the Russian economy after the break-up of the Soviet Union further reduced exports to the region.

The death of communism also meant changes in marketing and distribution. Moldovan wine had been bottled at plants in Ukraine and then distributed to the Soviet republics through the central planning system. These arrangements ended in 1992, when Ukrainian bottle suppliers suddenly wanted hard currency for their poor-quality products.

Some progress has been made in finding new markets. Exports to the European Union have risen from 1.5m bottles in 1993 to 5m last year – inexpensive Moldovan whites are readily available in UK super*markets*.

However, the small former Soviet republic still sells most of its wine in eastern Europe. *The industry wants to increase* sales to the west from 8m bottles this year to 20m by 1998.

Moldova will not find it easy to turn its export potential into reality. Like so many industries in the former Soviet Union, winemakers rely on inefficient production methods and have only rudimentary marketing skills.

Vitis-Hincesti has embarked on an unusual business relationship to help it modernise. Three years ago the Moldovan *winery struck a barter deal* with Hugh Ryman, the company of self-styled "flying winemakers" based in Bordeaux, France, and with Penfolds, the Australian winemaker, to produce wines in exchange for a $500,000 bottling plant. This has also brought the Moldovan winemakers know-how on production, pack*aging and marketing*.

"We spent a lot of time cleaning things, and people didn't understand why," says *Mr Con Simos, the 29-year-old* Australian who runs Hugh Ryman's operations in Moldova and Hungary. "You'd be surprised how hygiene makes a difference."

The French company initially bought 15 per cent of the output, but soon found that western consumers were not flocking to buy the downmarket wine with its $4.50 price tag. Mr Simos blames "poor consumer perception of Moldova".

Confident about quality, the company simply changed the name: Rochu de Hincesti, the chardonnay, now sells as Kirkwood in the UK and Hickory Ridge in the US. Sales are up 40 per cent this year. French labels, Bulgarian bottles and Portuguese cork have replaced the old Soviet packaging materials.

"*When you start from noth*ing, you have to build up something before many more agents will buy it," says Mr Simos, *who adds that the company* first had to open an office, set up telephones that work and then find a way to get the wine out. It is now shipped through the port of Odessa in Ukraine.

The European Bank for Reconstruction and Development's first loan to Moldova – approved last year – was $30m to boost wine output over the next three years. Backed by part of the loan, Eleusis, a Spanish construction company, last month began to equip and *build a modern bottle plant* outside Chisinau, the capital, that will produce 50m wine bottles and 40m champagne *bottles a year* by 1997.

"In the last two years we've tried to invest in upgrading our technology and getting on the world market *a ready prod*uct," says Mr Sergiu Sarghi, external economic relations director at Dacia-Fenix, the commercial association of viniculturalists and vineyards.

As wine officials eagerly seek outside investment, state wineries are finally changing owners after privatisation began in earnest last year. Vitis-Hincesti spent four decades in state hands before a recent takeover by the workers. By law, however, land cannot be freely bought or sold until 2001, and foreigners are more interested in the fields than the ageing machinery.

"To us, a factory would be useless. We'd just tear it down and start all over again," Mr Simos says. "We're only inter*ested in the vineyards*."

As the country makes its export push westwards, it fears obstacles from the European Union. Moldovan wine is more highly taxed on entry to *the EU than the two leading* east European producers, Bulgaria and Hungary, which have association agreements with the *EU*.

Mr Anton Spee, an EBRD marketing consultant, says the higher EU import duties imposed on former *Soviet* republics raise prices of Moldovan wines. But he adds that for the time being Moldova's low production costs have helped keep the retail price down.

This year Moldova wants to raise exports to the US and Australia and to try to restore sales to the former Soviet Union. Many consumers there turned to western brands when Russia's borders opened after 1991. Although an increasing proportion of Moldovan wine production goes to western markets, Mr Sarghi stresses that Moldova "must recapture *the Russian market*".

Bulgaria and Hungary started exporting to the west long before Moldova, and found a niche market for modestly priced wines of acceptable quality. They thus paved the way for other east European producers such as Romania. Moldova hopes that if it improves quality and packaging, it could follow suit.

"The perception of east European wines is getting better," Mr Spee says. "Moldovan wineries are making the hard decisions, buying new equipment, privatising. The future looks good."

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). Translation may be available for letters written in the main international languages.

Forecasting's fundamental flaw

From Mr William P. Kucewicz.

Sir, Professor John Kay's *survey of UK economic fore*casters ("Cracks in the crystal ball", September 29) reveals a telling consistency of inaccuracy. *He points to the uniform* failure to foresee the "dramatic and continuing decline in inflation since 1991". Although lower price levels may have surprised those who hold that inflation is a consequence of "excessive demand", the slowdown in price increases was quite predictable.

If inflation instead is viewed as the debasement of the unit of account, then gold becomes *the best measure of monetary* value in a world of floating exchange rates. Historic data shows that changes in the ster*ling price of gold presaged the* inflation rate decline by 10 months. Gold fell from £265 per ounce in December 1989 to £195 by July 1990. British producer and consumer price rises subsequently peaked, in October 1990, and then fell for the next 12 months. Sterling gold price fluctuations and UKrates of inflation have moved in tandem ever since.

Prof Kay correctly cites the *inability of most forecasting to* identify structural changes in the economy as a "fundamental weakness". Much more is at issue, however. *That conven*tional economic forecasting (and not just in Britain) is so consistently inaccurate can only suggest the prevailing Keynesian model itself is fundamentally flawed.

William P. Kucewicz,
Polyconomics Inc.
86 Maple Avenue,
Morristown, NJ 07960, US

Metrication pipe dream in Germany

From Mr Jonathan Miles.

Sir, Your article on metrication (*"FT's $10\frac{7}{16}$ inch-wide* guide to metrication", October 2) recalls the latest twist in the UK's long and agonising metrication debate.

British readers may be interested to know that their authorities have scored an own goal, for in Germany, as here in Luxembourg, pipes, taps and the like are calibrated in inches. Britain, however, has been metricating these fittings for some years in some misplaced gesture of "European" harmonisation.

Moral: the German industrial lobby knows better how to protect itself from the crippling *costs of change which* bureaucrats and Eurocrats would inflict on them than do the gullible British.

Jonathan Miles,
315 route de Longwy,
L-1941 Luxembourg

From Mr Robert G Rae.

Sir, Rapid application of a measuring device shows the text of your "$10\frac{7}{16}$ inch-wide guide to metrication" (October 2) to be a mere 10in wide, prompting the question – are we all being short-changed, like the baked bean aficionados, or has the remaining $\frac{7}{16}$ of an inch ended up in the "gutter" along with much of the rest of the antiquated British measurement system?

The same measuring device shows an FT page to be 39cm wide and 60cm deep, while the text width is 5cm wide. So it seems the FT, at least, made the wise decision to "go metric" some time ago?

Robert G Rae,
98 Ranby Road,
Greystones,
Sheffield,
South Yorkshire S11 7AL,
UK

Not a good argument

From Mr Philip Cullum.

Sir, National Power and PowerGen apparently justify their bids for regional electricity companies as a kind of raid *on skills, in preparation for the* competitive market in 1998 ("Escaping the power sector's generation gap", October 2).

"Neither of the generators has the expertise in billing, marketing and customer service to attack the domestic *supply market*," reports David Wighton. So, rather than build such operations themselves, "they have opted to buy them".

*However, from the consum*er's perspective, this is all rather unconvincing. For instance, the electricity companies *surely have little more* marketing experience than the two generators when it comes to wooing domestic customers, *if only because the companies* face the undemanding challenge of selling an essential product to a captive market.

As for customer service, when we surveyed utility customers for *Which?*, the fairly dismal achievement of the regional electricity companies was to outshine only the water companies.

It is disappointing how little PowerGen and National Power have said about improving service for customers, if the bids succeed. Some details of what the generators intend to do to give customers a better deal would be welcome.

Philip Cullum,
policy manager,
Consumers' Association,
2 Marylebone Road,
London NW1 4DF, UK

Market pricing problems

From Mr Adrian FitzGerald.

Sir, There is an urgent need for a review of the combined *effect of the 1993 Criminal Jus*tice Act, Part V (insider dealing law) and the Stock Exchange's reinforced guidance *on the dissemination of* price-sensitive information.

Last year my prediction that the new rules would result in a *less efficient* equity market and that a significant increase in profits warnings would lead to greater share price volatility *was reported in the article* "Analysts wary of tighter net" (March 22 1994). This has proved to be the case.

It is partly smugness which prompts me to write, in fact, having recently disposed of personal shareholdings in *Alfred McAlpine and First* Choice Holidays. The shares of both companies were badly mauled after each had given a *profits warnings*.

Moreover, and as many investors will know to their cost, these are just two of *many similar cases over the* past 18 months.

Any observer of the UK market must conclude that, while it may be a fairer market in the sense that professional analysts and managers no longer benefit to the same extent from corporate nods and winks, it now has serious inef*ficiencies*. It is clearly the case that in this environment many shares can be badly mis-priced for lengthy periods. Indeed, I *would certainly feel disgrun*tled if had recently been a buyer and not a seller of McAlpine and First Choice.

The net result is heightened short-termism. What incentive is there for investors to assess and invest on the basis of *long-term prospects* when they are only too aware that a significant proportion of asset value can be wiped out within days?

As an aside, it is interesting to note how few companies relay warnings that market *expectations* are too low.

I do not have a ready solution to offer. Moreover, I would not wish to dig up the fairer *playing field now* established. However, present market inefficiencies can only serve to frighten off both existing and *potential participants*. A satisfactory solution will have to be found.

Adrian FitzGerald,
Pomathorn Farmhouse,
Penicuik,
Midlothian EH26 8PJ, UK

Jardine still has place in a 'leading' index

From Mr Richard Pain.

Sir, Oh dear, that this should have to be pointed out to Lex (September 27).

The Jardine Matheson group of companies is still included in the "leading" Financial Times/Standard & Poor's – Actuaries World Indices and in the FT/S&P AWI Hong Kong country index.

This group is difficult to place following changes in corporate structure that it has instigated, but the World Index Policy Committee felt it was important to keep it as a constituent of the Pacific Basin Regional Index and, within that, to maintain it in Hong Kong.

Richard Pain,
chairman, FT/S&P Actuaries World Indices Policy Committee,
Staple Inn Hall,
High Holborn, London WC1, UK

FINANCIAL TIMES
Thursday October 5 1995

Apec agrees customs checks deal

Accord sets target for uniform standards by end of the decade

By William Dawkins in Tokyo

Members of the Asia-Pacific Economic Co-operation forum, embracing 40 per cent of world trade, have agreed in principle to adopt common customs checks by the end of the decade.

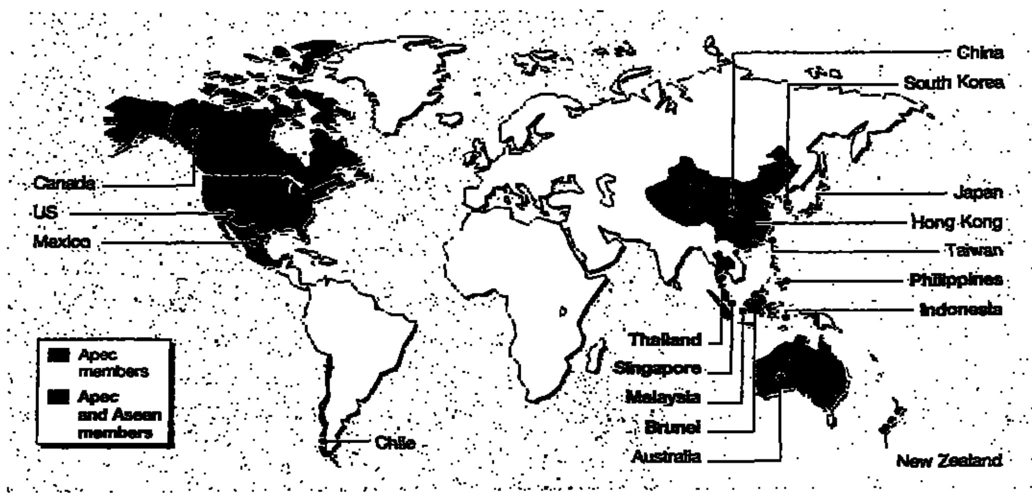
The accord, reached at a meeting of customs officials chaired by the Japanese finance ministry, is the most concrete step by Apec towards realising its target of ending industrialised countries' trade barriers by 2010 and opening developing countries' markets by 2020, said officials.

In other areas, progress was yesterday being held up by a US-Asia deadlock over agriculture. Japan, South Korea and China want to shelter farmers from free trade, while the US and Australia, Apec's biggest food exporters, insist on no exceptions.

The customs deal is to be presented to a meeting of senior Apec officials in Tokyo next week, for adoption by the forum's annual summit in Osaka next month. The accord contains nine steps to ensure that goods pass through the same customs procedures.

These include common rules for valuing goods to assess import tariffs; wider enforcement of copyrights; the adoption of a single Apec customs declaration form; and the computerisation of clearance procedures in line with United Nations rules. They agreed to prepare a precise schedule by the end of the year.

A Japanese official yesterday said that the Apec sub-committee on customs procedures had made more progress than any other working groups attempting to flesh out the free trade plan.



The Apec farm trade dispute, by contrast, worsened yesterday, when Mr Tomiichi Murayama, the Japanese prime minister, vowed to seek to exclude agriculture from the free trade plan.

Mr Murayama said Japan planned to keep to its undertaking in last year's Uruguay Round world trade deal to open its rice market, allowing imports representing just 4 per cent of total demand, from last January.

Mr Ryutaro Hashimoto, the minister for international trade and industry, warned that Apec could collapse if farmers were not given an exemption. However, Australia fears that Apec's free trade plan could unravel if farmers are protected. Mr Paul Keating, the Australian prime minister, has argued that granting exemption to farmers would invite other sectors to demand protection.

THE LEX COLUMN

Shrinking Trust

Few traders would want transcripts of their phone calls published. A penchant for foul language is almost a requirement for the job. But the Bankers Trust tapes, published as part of Procter & Gamble's racketeering suit against the bank, reveal more than high jinks. They show glee in being able to outwit customers.

The bad publicity generated by claims that Bankers Trust sold corporate clients inappropriate derivatives has already taken its toll on its business. Customers have become more wary about buying heavily-leveraged products whose risks they do not fully understand. Given that the damage is already done, the latest embarrassing disclosures may not make things much worse. However, they do strengthen the case for a overhaul of Bankers Trust's culture. While specific problems may be confined to a few individuals, it is hard to believe that the lack of concern for customers' interests is unconnected to the bank's aggressive transaction-driven culture.

With Bankers Trust's top management in flux and its shares trading at a discount to those of its peers, the group is talked about as a possible takeover target. After all, several big European commercial banks are anxious to build up their investment banking presence in the US. But it would be a brave bank that believed it could knock into shape an organisation with such a gung-ho culture. Moreover, Bankers Trust is relatively weak in equities – the business which European banks are most keen to develop. It will probably have to find its own solution to its problems.

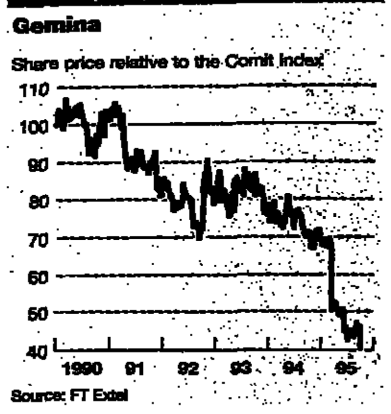
Gemina

Gemina's audacious proposals for building up a vast Italian industrial empire always looked like a case of ambition getting the better of ability. Gemina's management had a poor record with existing subsidiaries. Yet it planned to take over Ferruzzi Finanziaria and various Fiat subsidiaries in a deal which would give it control of a complex spread of unrelated businesses.

Such concerns have been exceeded by last week's revelation of huge losses at RCS, its publishing subsidiary – Gemina only recently said RCS was on a recovery track. The subsequent 18 per cent drop in its share price is both costly and embarrassing for the puppeteers behind Gemina, Mediobanca and Fiat. They are talking about management reshuffles at

FT-SE Eurotrack 200: 1528.0 (+1.1)

Gemina



Source: FT Extel

Gemina. But the dynamics of the transaction have switched in favour of shareholders in Gemina's takeover targets, such as Ferfin. More Gemina shares will now need to be issued, further diluting Mediobanca/Fiat control of Super-Gemina.

This is good news for some parties in the transaction, but offers no solace to shareholders in Super-Gemina's largest component, Montedison. Super-Gemina will become a vast diversified holding company, but its largest asset will be a 30 per cent stake in another giant conglomerate, Montedison. Given overlaps, such as head offices, further restructuring seems inevitable. Control of Montedison has changed hands twice in three years without minority shareholders receiving any premium. They could end up on the wrong side of yet another reshuffle.

BT/Labour

Mr Tony Blair's Labour party and BT are clearly having a problem communicating. Labour thinks it has a deal that BT will provide free connections to the information superhighway for schools and hospitals in exchange for looser regulation; BT calls it more of a concept. But the crossed lines are not the real problem. More seriously, the episode underlines a weakness in Labour's whole idea of partnership between public and private sectors. This is now revealed to amount to trading the public interest in exchange for favours from a private company.

It is doubtful whether trading the public interest is wise in principle. But, if Labour is going down this route, it should at least press for the best deal. The cost to BT of cabling up schools and hospitals will be tiny by comparison with the total £10bn-plus investment that will be needed to create a nationwide infrastructure. It is not even as if the schools will then get free use of the network.

If Mr Blair was thinking really commercially, he would have approached BT's rivals and held an auction. The cable television companies might have been willing to throw free usage into the bargain if Labour promised to keep BT out of their market for a few more years. AT&T, which is on the point of entering the UK phone market, might have offered even more goodies if Mr Blair promised to tie BT in regulatory knots. Sadly, new Labour has revealed itself to be a touch naive when it comes to commercial negotiations.

Life assurance

After two years of conflict between the UK life assurance industry and its regulator, there is the real chance of a ceasefire. Instead of a peace dividend, Mr Andrew Large, chairman of the Securities and Investments Board, is offering a "disclosure dividend". He argues that greater openness and higher standards on the part of the life companies should lead to their being more lightly regulated. The industry still has much to prove following the scandals over endowment mortgages and pensions mis-selling. But if it can win back credibility by having better-trained salespeople delivering products that are easier to understand, it should be rewarded with greater flexibility and lower compliance costs. For investors, the strong fundamentals of the life companies, with robust balance sheets, capacity to increase dividends and growing underlying demand, should then reassert themselves. The sector's outperformance since last month's results from Prudential Corporation is a sign that this is already happening.

As long as full disclosure and training remain the cornerstones of regulation, many of the detailed procedures should be easy enough to cut out. There could even be a system under which the better companies suffer fewer inspections and need to comply with fewer rules. If he really wants to make a difference, however, Mr Large should also look at streamlining the number of regulatory bodies themselves.

Additional Lex comment on Manweb on Page 20

Daiwa Bank

Continued from Page 1

the bank's problems had been completed.

He rejected suggestions that the bank had deliberately not told the US authorities about the losses discovered at the New York branch.

The bank received notification of the losses in July but waited until September 18 before informing regulators in Japan and the US. Daiwa says the delay was the result of the detailed internal investigation it was forced to conduct.

Mr Fujita also denied reports that Mr Toshihide Iguchi, the trader allegedly responsible for the losses, may not have acted alone. Japanese newspapers had earlier cited US investigators' reports that Mr Iguchi had covered up the losses with the aid of an accomplice.

But Daiwa did arouse new suspicions about its conduct when bank officials confirmed yesterday that it had raised more short-term funding than usual in the money markets in the days immediately before revelation of the losses.

Daiwa Bank's shares fell by another Y20 on the Tokyo stock exchange yesterday to close at Y760.

Brussels acts against Italy on mobile phone competition

By Emma Tucker in Brussels and Andrew Hill in Milan

The European Commission began legal proceedings against Italy yesterday for failing to allow fair competition in domestic mobile telephone services.

Mr Karel Van Miert, the competition commissioner, who has described Italy's approach to the mobile telephone sector as a "scandal", believes Omnitel Pronto Italia, the only private mobile company granted a licence, has suffered severe discrimination.

He won the support of other commissioners to begin legal proceedings, which set a deadline of three months for action by the Italian government, after repeated letters and requests to Rome failed to produce results.

The Italian authorities have refused to allow Omnitel, an international consortium in which Olivetti is the biggest shareholder, to operate a cellular phone network under the same conditions as Telecom Italia, the state-owned monopoly. In particular, Telecom Italia has not been asked to pay the same fee that Omnitel had to pay in order to win the licence.

Seat, Volkswagen's lossmaking Spanish subsidiary, has agreed to cut capacity by 30 per cent in return for Brussels' approval of a Pta46bn ($365m) state aid package, Mr Karel Van Miert, the competition commissioner, said yesterday. This amounts to 1,000 fewer cars produced a day across the Seat group, according to an official.

Yesterday, Commission officials said the Italian authorities had the three months in which either to demand a similar payment from Telecom Italia or to grant Omnitel concessions – such as better access to networks – that could be judged to be adequate compensation for the second operator.

The Italian telecoms ministry declined to comment yesterday on the grounds that Mr Agostino Gambino, the minister, had not yet received official notification of Mr Van Miert's decision.

Telecom Italia Mobile (TIM), the state-controlled mobile phone company, and Omnitel, which won the licence for the second digital mobile phone network in March last year, also declined to comment.

Omnitel has claimed that it did not ask Mr Van Miert to intervene on the question of the entry fee. On most other regulatory aspects, however, it has fought hard, both in Rome and Brussels, to reduce TIM's head start in the mobile sector.

Recently there has been an uneasy truce between the two rival companies, although last month's launch of Omnitel's "experimental" service has triggered a new marketing battle. Omnitel plans to begin a full commercial service by the end of the year.

The Commission said it recognised that progress had been made by the Italian authorities since it first threatened legal action in December last year. It noted that draft legislation aimed at reforming the regulatory regime of the Italian telecoms market was recently submitted to the Italian parliament.

Apple finance chief resigns after boardroom dispute

Continued from Page 1

resolved, company officials acknowledge.

Apple's board issued a statement yesterday reaffirming its "full support" for Mr Spindler.

Apple said that Mr Graziano has resigned as a director, effective immediately, and will leave the company by year end. Mr Graziano stressed that the parting was "amicable".

"This was not a palace coup," said Apple, refuting reports that Mr Graziano was attempting to oust Mr Spindler.

Mr Graziano's departure is a blow for Apple. As chief financial officer he has played a central role in Apple's restructuring over the past two years.

Mr Graziano first joined Apple in 1981, and served as chief financial officer until 1985.

During that time, the company's annual revenues grew from $300m to $2bn. After a two-year sabbatical, followed by two years as chief financial officer at Sun Microsystems, he rejoined Apple in 1989.

Wall Street reacted calmly to the news. Apple's share price was off $1¼ to trade at $36⅜ in mid session yesterday.

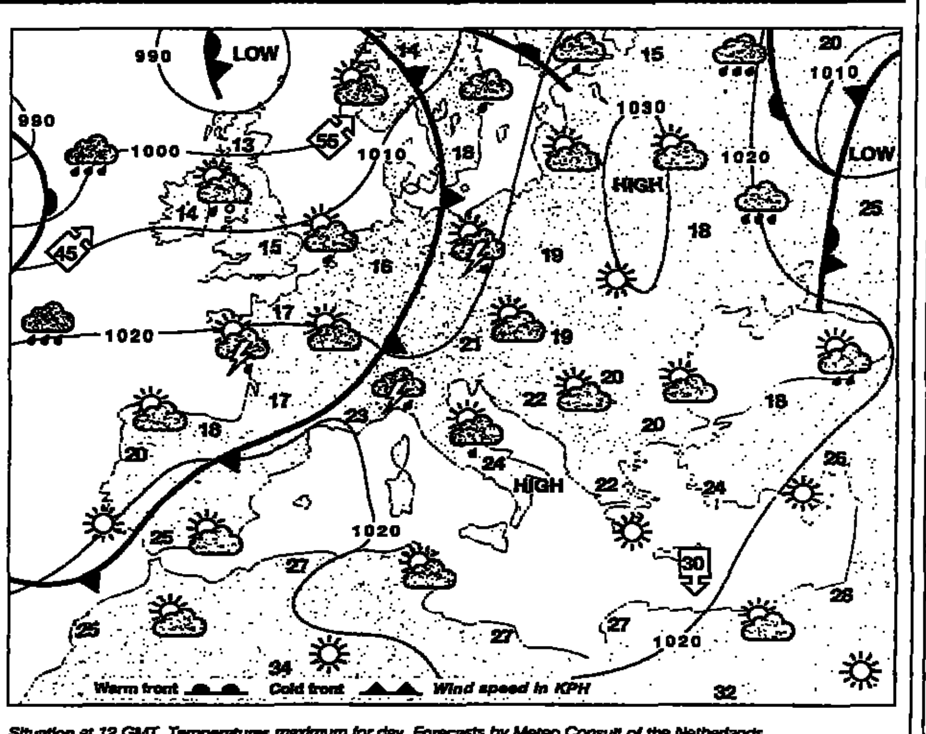
FT WEATHER GUIDE

Europe today

The circulation around a high pressure area over eastern Europe will draw warmer air into the eastern half of the continent on southerly winds. In the warm air, sunny spells are expected and temperatures will rise above seasonal values. Meanwhile, colder air will sweep into western Europe. Consequently, showers, occasionally accompanied by thunder and hail, will erupt over the northern UK and north-western France. France will see scattered cloud and the Iberian peninsula will have sunny periods. On the boundary between the warmer air to the east and colder air in the west, cloud will dominate and some rain or thunder showers will develop from central Norway into south-western Sweden, Germany, the Alps and across eastern and south-eastern France and north-eastern Spain.

Five-day forecast

High pressure over eastern Europe will build to the west. As a result, conditions over the continent will become more settled with sunny spells during the day. At night, some foggy patches will persist, though rain showers will be absent. Due to the extensive nature of the high, depressions will stay over the Atlantic and changeable conditions will only occur over the UK and Scandinavia.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	35
Accra	shower	30
Algiers	fair	28
Amsterdam	fair	16
Athens	sun	23
Atlanta	thund	24
B. Aires	thund	18
B.ham	cloudy	15
Bangkok	thund	34
Barcelona	thund	23
Beijing	sun	15
Belfast	hail	15
Belgrade	fair	22
Berlin	fair	23
Bermuda	shower	29
Bogota	cloudy	20
Bombay	cloudy	33
Brussels	fair	16
Budapest	cloudy	19
C.hagen	rain	16
Cairo	sun	29
Cape Town	shower	17
Caracas	thund	31
Cardiff	shower	15
Casablanca	cloudy	23
Chicago	thund	17
Cologne	shower	17
Dakar	fair	32
Dallas	sun	26
Delhi	sun	36
Dubai	sun	37
Dublin	cloudy	15
Dubrovnik	cloudy	22
Edinburgh	fair	15
Faro	fair	23
Frankfurt	thund	18
Geneva	rain	18
Gibraltar	fair	24
Glasgow	shower	15
Hamburg	shower	18
Helsinki	rain	15
Hong Kong	shower	28
Honolulu	cloudy	31
Istanbul	sun	19
Jakarta	cloudy	32
Jersey	shower	16
Karachi	cloudy	34
Kuwait	sun	38
L. Angeles	sun	34
Las Palmas	sun	26
Lima	cloudy	20
Lisbon	fair	21
London	fair	16
Lux.bourg	cloudy	15
Lyon	thund	17
Madeira	shower	27
Madrid	fair	22
Majorca	fair	25
Malta	fair	25
Manchester	shower	14
Manila	thund	31
Melbourne	shower	15
Mexico City	rain	23
Miami	thund	32
Milan	thund	20
Montreal	cloudy	19
Moscow	fair	12
Munich	shower	22
Nairobi	shower	25
Naples	fair	24
Nassau	shower	33
New York	shower	24
Nice	thund	22
Nicosia	sun	26
Oslo	rain	15
Paris	fair	18
Perth	shower	18
Prague	fair	22
Rangoon	drzzl	33
Reykjavik	fair	8
Rio	fair	26
Rome	fair	25
S. Frsco	sun	29
Seoul	fair	17
Singapore	shower	31
Stockholm	shower	18
Strasbourg	thund	18
Sydney	sun	23
Tangier	fair	24
Tel Aviv	sun	29
Tokyo	fair	26
Toronto	rain	16
Vancouver	rain	17
Venice	fair	21
Vienna	fair	20
Warsaw	fair	20
Washington	shower	26
Wellington	fair	16
Winnipeg	fair	12
Zurich	rain	18

FINANCIAL TIMES
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Thursday October 5 1995

Sound Budget, sound politics

Mr Kenneth Clarke has never made any secret of his lack of interest in the *reform* of the tax structure. His successes so far have stemmed more from a readiness to look a deficit in the eye and administer politically audacious remedies. This is not a talent to be despised in any chancellor. Yet improvements in the overall fiscal stance have been won at the cost of more distortions in the system. This is notably true in the area that matters most for growth: the taxation of savings and investment.

Among the chief priorities here should be an attempt to restore *neutrality* between *different* types of saving, so that resources flow naturally towards the highest pre-tax returns. With a general election looming, the temptation in November's Budget will be to direct them instead to areas of maximum political advantage. Yet the two objectives are not necessarily incompatible. There are courses open to Mr Clarke which would allow him to argue that in micro as well as macro matters, good politics are good economics.

This trick will be least easy to achieve in housing, where the *demand for a quick fix is not far* short of overwhelming. Yet there are no obvious fiscal wheezes that would produce a sustained increase in house prices at other than prohibitive cost. Nor would they be desirable anyway.

The privileged tax status of housing, which attracts mortgage relief, exemption from capital gains and the absence of tax on the imputed income from owner-occupation, has fostered the great British illusion that wealth can be created by trading in property, instead of producing goods and services. The resulting high level of home ownership, along with the accompanying decline in the private rented sector, *has also* hindered labour mobility. If there is to be help for the housing market, *it should be no more than a* by-product of any reduction in the standard rate of income tax.

Enriching bonus

Another temptation that the chancellor should continue to resist is a revenue-maximising raid on the pension funds. In a period when they are dealing with new minimum funding requirements, potentially lower returns on investment and a reduced tax credit on dividend income, it would make more sense to relax excessively *tight Inland Revenue* rules on the accumulation of surpluses than to reduce the tax *credit further*.

In any event, a reduced tax credit would increase companies' pensions bill by eroding solvency – a point that Mr Norman Lamont disingenuously failed to make when he dressed up the last raid as a cash enriching bonus for industry. Such changes do nothing for employment. A repeat performance would also amount to harsh treatment for business, which is already increasing its contribution to the exchequer through corporation tax from £14.9bn in 1993-94 to a forecast £26.4bn, or 26 per cent of the total tax take, in 1995-96.

The greatest opportunities for *the chancellor lie in* the area of capital taxation, where the yield from capital gains tax and inheritance tax, at less than 3½ per cent of total tax revenue, is so low that it is possible to achieve politically worthwhile change at minimal cost. By now the flat-rate 40 per cent inheritance tax is a largely voluntary, and exceptionally arbitrary, impost that falls only marginally on the genuinely rich. Ironically, one result of the tax privileged *treatment of housing* is that the biggest victims of inheritance tax are those whose only significant asset is a high-value home. Any loss of revenue from an increase in the £154,000 threshold could be financed by very low rates of tax on the recipients of lifetime gifts.

Constructive change

With capital gains tax, mean*time, there is plenty of room for* constructive change. At 40 per cent, the rate is one of the highest in the world, *which bears* very heavily on entrepreneurship. It also distorts investment decisions by creating a locking-in effect. The high rate has increasingly been offset by devices such as Mr Clarke's enterprise investment schemes and venture capital trusts. Yet experience suggests that such vehicles may succeed only in directing resources to sub-optimal investments.

Reductions in the capital gains tax rate *according to the length of* time for which assets are held would make more sense. It would *reduce the bias in favour of* tax-exempt institutional investment, while softening the locking-in penalty. Admittedly the advantage of having capital gains at the same level as the top rate of income tax would be lost, creating a renewed incentive to take investment returns in the form of capital gains. Yet this disadvantage would be outweighed by the boost to entrepreneurial business. The best solution anyway lies in an expenditure tax, which makes the distinction between capital and revenue irrelevant.

A *final option, not without political* attraction, would be to recognise that bank and building society deposits are the cinderellas of the fiscal system. The logic of combining Peps and Tessas in a single scheme and extending it to all investments at a lower ceiling than the current £9,000 for Peps would help less well-off savers while enhancing neutrality.

Economics as futurology

Economists have plenty to say about the forces behind the economic headlines, but rarely can they accurately predict the news in advance. Time and again, the world asks them to gaze into their crystal balls and, time and again, they oblige, with ever-more precise, but mistaken, estimates of future events.

The continued demand for economic forecasts, for all their well-known *failings*, is easy to understand. Most people prefer a flawed picture of the future to a blank canvas. By the same token, one does not need a heavy schooling in economics to understand why there should be a supply of forecasts to meet this demand. What is more difficult to understand is the profession's apparent determination, not merely *to provide* forecasts, but to allow itself to be judged by them.

Professor John Kay *of* the London Business School outlined the failings of traditional economic forecasts in an *article* in last Friday's FT. As he noted, economic forecasts have a consistent tendency *to cluster around* a "safe" guess that next year's inflation, say, will lie somewhere between today's rate *and its* longer term average. As a result, most forecasts are wrong, most of the time, especially when the *economy* is at a turning point in the cycle or, more difficult still, structural economic changes are *afoot*.

Historic shift

Forecasters have rushed to defend their art against such slander. But not all should be insulted by Prof Kay's remarks: it all depends on what the forecasts are supposed to achieve. *Private* economists, like investors, need to weigh the risks of inaccuracy against the rewards *of being* right. Often, it may be more important to avoid disaster than to win "Golden Guru" awards. The "safe" forecast, though rarely spot-on, is less likely to be wildly off than a prediction based on the heroic assumption that a historic shift in behaviour *is about to occur*.

Academic economists, however, have no such excuse for running with the pack. They can afford to take risks in pursuit of an interesting analysis of the economics behind the growth and inflation rates. Once every few years, a dogged desire to be different pays off. But even the hopelessly wrong forecasts will often contain more economic insights than the consensus estimates.

Persistent revisions

Purists would argue that institutions such as the International Monetary Fund and the OECD should get out of the forecasting business altogether. Certainly, the persistent revisions to the IMF's numbers do little for its reputation.

In the World Economic Outlook, published yesterday, the organisation has revised its growth for the seven leading industrial countries, expecting them to achieve only 2.4 per cent growth this year. In April, the same economists expected these economies to expand by 3 per cent, while only 12 months ago they expected a hearty 3.6 per cent rise.

At the very least, the fund and others seeking recognition as economists rather than astrologists should abandon single forecasts in favour of a range of "scenarios". These allow one to take a more thoughtful approach, while reducing the risk of getting it wrong. But the media and others would then have to stop asking on a "bottom-line" guess to fill the headlines: something we all show little sign of doing.

Michelin men make their mark

John Ridding and **Andrew Gowers** examine the French tyre group's attempt to become an all-terrain production vehicle

A business leader must always be willing to shake things up, says Mr François Michelin, head of the French tyre giant. "You cannot let people become set in their ways," he declares.

Such a view might seem surprising from the softly-spoken Mr *Michelin, who has* managed the secretive company for the past 40 years with a discreet, retiring manner. *But the strategy of bold* expansion and innovation he has pursued in pushing Michelin from its provin*cial French roots to the top of the* world tyre industry points to a mould-breaking streak.

It is one of the qualities, he says, that he finds in Edouard, his fourth son and designated successor to the tyre empire. Having returned in 1993 from a two-year stint in charge of the company's US operations, Edouard is playing an increasingly prominent role, sitting alongside his father at the company controls and in a rare interview at the Clermont-Ferrand headquarters.

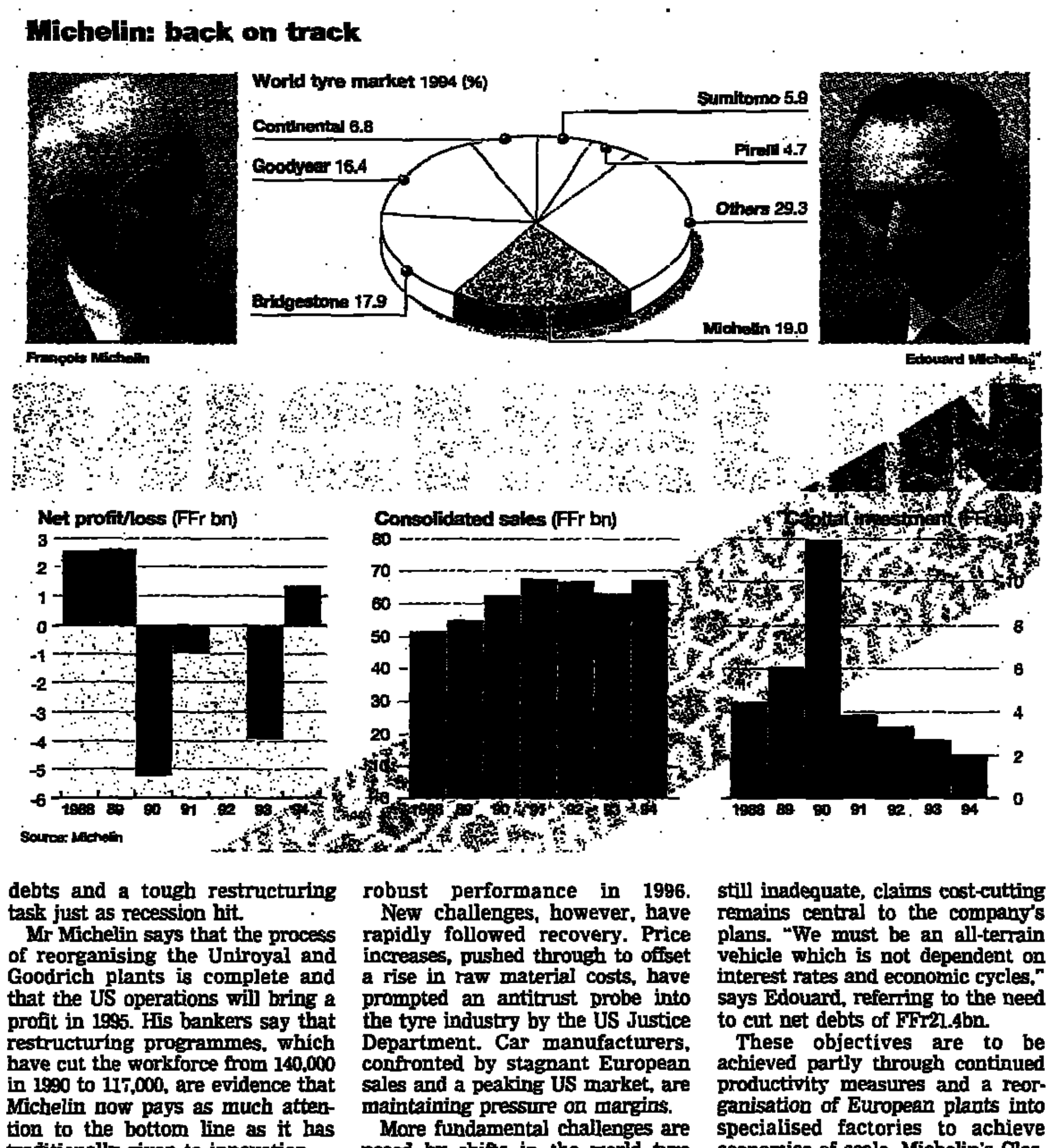
The double act, and moves towards Edouard's eventual succession, mark a crucial period in the unusual history of Michelin, a family enterprise which has grown into one of the country's largest industrial groups. After emerging from a financial crisis at the beginning of the 1990s, the partnership will determine whether Michelin can manage a smooth transition and fend off resurgent competition from Goodyear of the US, Bridgestone of Japan and emerging pretenders from east Asia.

The Michelin chief expresses few concerns on the management score. "If Edouard was not right, then we would have looked elsewhere... if he was not the boss here, he would be at another company," says François. "He has 32 years of experience at Michelin," he jokes, referring to Edouard's age, less than half his 69 years.

The once-closeted Michelins have opened up somewhat over the past few years. But they remain guarded *about the division of responsibility.* "It is something between father and son," says Edouard. "As my father says, if you ask a centipede how it walks, it will get a headache," he adds. François describes a system of collaboration, aided by Mr René Zingraff, the third managing partner. This arrangement is due to last until François' official retirement date in 1999, with a possible two-year extension.

If the family ties seem solid, the Michelin men also confront their challenges from a position of renewed business strength. Last month's announcement that net profits had trebled to FFr1.43bn ($291m) in the first half of 1995 con*firmed Michelin's recovery from the* heavy losses which pushed it into grave financial difficulties.

"We were accelerating down the fast lane when he hit a traffic jam," says François, referring to a phase of aggressive expansion which brought new factories at the rate of one every nine months between 1960 and 1990 and which culminated in the acquisition of Uniroyal Goodrich of the US in 1989. The deal fulfilled Mr Michelin's long-term objectives, making his company the biggest in the tyre industry, with almost 20 per cent of the market. *But it burdened Michelin with* debts and a tough restructuring task just as recession hit.



Mr Michelin says that the process of reorganising the Uniroyal and Goodrich plants is complete and that the US operations will bring a profit in 1995. His bankers say that restructuring programmes, which have cut the workforce from 140,000 in 1990 to 117,000, are evidence that *Michelin* now pays as much attention to the bottom line as it has traditionally given to innovation.

This innovative bent prompted early experiments in leather and nail-studded tyres and the invention of the radial in the 1940s, with detours into restaurant guides and road signs. François explains that the maps and the signposts were necessary to get people on to the roads. But he talks more about the need to maximise the efficiency of production.

"There is now a much tighter focus on returns," says Mr Hervé de Carmoy, chairman of *BIMP*, one of Michelin's bankers. Other analysts agree, predicting a strong increase *in full-year profits and a* robust performance in 1996.

New challenges, however, have rapidly followed recovery. Price increases, pushed through to offset a rise in raw material costs, have prompted an antitrust probe into the tyre industry by the US Justice Department. Car manufacturers, confronted by stagnant European sales and a peaking US market, are *maintaining pressure on margins*.

More fundamental challenges are posed by shifts in the world tyre *industry*. *"One big issue is how* Michelin, a premium brand company, copes with the trend towards lower-cost tyres," says Mr Chris Moore, a Morgan Stanley analyst. Other challenges include the search for new sources of growth.

The Michelins' response ranges from expansion in rapidly growing regions, notably east Asia, where they are seeking partners, to making economies in mature markets. Further measures include the development *of new technologies* and a reorganisation of how they make and sell their tyres.

François, who accepts profits are still inadequate, claims cost-cutting remains central to the company's plans. "We must be an all-terrain vehicle which is not dependent on interest rates and economic cycles," says Edouard, referring to the need to cut net debts of FFr21.4bn.

These objectives are to be achieved partly through continued productivity measures and a reor*ganisation of European plants* into specialised factories to achieve economies of scale. Michelin's Clas*sic brand of tyres for passenger* cars, for example, is now produced at just two plants, in Dundee in Scotland and Bourges in France. The reorganisation should be finished by the end of next year.

In line with its technological traditions, Michelin is also aiming for efficiency gains through its latest and most mysterious innovation – the C3M, an automated manufacturing unit which can switch between different tyres.

The mention of C3M brings a glint to the father's eye. Like much about Michelin, the system has been *shrouded in secrecy. But* François compares its potential industrial impact to that of the float glass process which revolutionised glass manufacturing following its introduction by Pilkington of the UK in 1959. His claims that "each machine is a factory" and that a machine could fit in the 25ft by 15ft room in which he is dining provide some support to his assertion.

One C3M unit is already operational at Clermont-Ferrand. Others will be introduced to satisfy new market niches, rather than to increase capacity. By allowing increased *flexibility in production*, it will help Michelin respond to the increased diversity of customer *demand, a trend which has also* prompted the launch of the Classic, Pilot and Energy ranges. Car manu*facturers also cite* increased responsiveness from Michelin, which has managed to shed its reputation for arrogance.

However, market pressures to increase the speed of product development and cut costs have posed problems at Michelin, where information has traditionally been rationed on a need-to-know basis. *But this is changing. One US* engineer among the 2,300 R&D staff at Clermont-Ferrand describes a shift towards teams in which staff from different departments co-operate in designing products.

Edouard appears to have pushed for such organisational reform, allowing him to make his mark on the company since his return from *the US. François is behind the* moves. "Different stages of a company's life require different solutions," he says.

But there are limits to change. Although the company has grown from one workshop to 67 plants, the peculiar legal structure of the company, which is known as a *société en commandite par actions* and which maintains family control of the capital, seems set to continue. "Would you fly in a plane guided by remote control?" *asks* Mr Michelin, arguing that the unlimited liability of the commandite, or managing partners, *ensures committed management* and enables quick action.

Many in the financial community bridle at Michelin's structure and the lack of shareholder control. But they accept it has allowed the pursuit of long-term strategies. The French group obtained an enduring lead in the production of radials, partly because foreign rivals balked at the investments needed to produce the new tyres.

The Green tyre, which cuts fuel consumption through reduced friction with the road, is a recent example. The expensive 20-year develop*ment process prompted opposition* from within Michelin, and the 1991 launch required forceful intervention by François. "The role of the boss is to stand outside the company structure and make those decisions," he says.

So far those decisions have proved right, if sometimes risky. "It has been a rough ride, but they have a strong position in markets and technology," says one of their main customers. "The Michelins don't have much *to* worry about, not in the short term." But then the short term was never the greatest *concern* at Clermont-Ferrand.

A roly-poly relationship

Few cities are identified as closely with a company as Clermont-Ferrand is with Michelin. For the postwar period, and for many years before, the tyre manufacturer has been the biggest employer in the provincial centre and its Auvergne surroundings in the heart of France.

Michelin's treadmarks are abun*dant. Boulevard Edouard Michelin*, named after the company's co-founder, runs close to the faded facades of the multinational's original 19th century site. Scattered around the town are bars with names such as *Les Bibs* – the nickname given to company workers which refers to Bibendum, the roly-poly Michelin mascot.

In recent years, however, the relationship between the town and the tyre giant has been transformed. Michelin's financial crisis at the beginning of the 1990s prompted a series of job cuts which came as a severe blow to the community. The Clermont-Ferrand pay*roll fell from 29,000 in 1980 to just* under 16,000 today. Before the cuts, the company had already withdrawn from the provision of clinics, schools and other social centres.

With the revival in Michelin's fortunes, employment levels have stabilised. But the upheavals have left their mark. "You can no longer call us Michelinville," says Mr *Roger Quilliot, the Socialist* mayor who has run the city for the past 20 years. "The relationship is now more normal."

For Mr Quilliot this is a good thing. "There are always risks when one company dominates the economy. For the past 10 years my *main task has been to offset the* decline in employment at Michelin and diversify our business base." In this, he claims success. "We have created more than 12,000 jobs, many in the service sector."

Attitudes towards the company have also changed. "There was anger and disillusion when the cuts came," says the bartender in a town centre café. "Michelin used to be God and the devil," says Mr Quilliot. "It was regarded with pride and hostility, in both cases because of its influence. Now people regard *Michelin* as a company like any other."

Not quite like any other, for Cler*mont-Ferrand at least*. The adjustment of the relationship has been a reappraisal rather than a rupture. Michelin continues to provide a quarter of the city's private sector jobs. Although its social role has been much reduced, and the discreet Michelin family has kept out of local politics, the company continues to support the community. ASM, the local sports club, remains as a vestige of Michelinville.

More fundamental are the ties *of* character between the city and its famous family. "François is a product of the region," says Mr Alain Etchegoyen, the philosopher and occasional consultant for the Michelin chief. Others refer to the austere traditions of the Auvergne region, *reflected in the Jansenist* religious movement which flourished there, and matched by the Michelins' style.

"They are absolutely representive of the Auvergne temperament," says Mr Quilliot. "People here do not seek luxury and the Michelins are not the kind to hold grand receptions." Like the volcanic hills which surround the city, *the family* blends into the scenery which it has helped to shape.

John Ridding

OBSERVER

Bankers we've trusted

■ Oh to have been a fly on the wall when Procter & Gamble's audit committee met on April 12 last year.

The subject of discussion: how the company came to lose millions of dollars on derivatives it bought from Bankers Trust. Appearing to explain the problem: Erik Nelson, then (and still) the company's chief financial officer.

Highlights of Nelson's comments, made available in evidence unsealed by the court this week, catch the flavour of his presentation.

"We didn't test any 'worst case' scenarios to see what would happen if interest rates took off on us...

"We were betting that the financial markets wouldn't move against us. This, too, ran contrary to our policy of knowing our risk up front at the time we enter into a swap...

"In hindsight, the lessons are obvious, but at the time our judgment was clouded by the belief that rates wouldn't rise quickly and that we understood the pricing formula when in fact we didn't...

"Several weeks went by when we were operating with the hope that the problem would go away...

"I can tell you that those involved feel every bit as badly as I do. We have all learned a lesson."

Nelson concludes his comments: "I can personally assure you that the situation I've just described will never happen again. May I answer any questions?"

Seeing red

■ Robin Cook, Labour's foreign affairs spokesman, has managed to make a few enemies in the City this week. Talking about the single currency and its possible impact on employment, he let slip at the party conference on Tuesday that he was "not worried about the jobs of men in red braces speculating against the pound".

Now, traders are vain souls, who dislike having the size of their contribution to the balance of payments cast in doubt by a hirsute politician. But what they really resent is being muddled up with bond dealers. Memo to Robin. It's the gentlemen who prefer bonds who sport the red braces – while the fx boys like to be known for the whiteness of their socks.

French connection

■ What is going on at Paribas Capital Markets (PCM) in London? Patrick Stevenson, 50, the architect of PCM and a 26-year veteran of the bank, has been made chairman of Paribas Europe and senior adviser to Banque Paribas' executive committee.

Stevenson, who despite his name is French, has been running PCM since its inception in 1984 and has established it as the most prominent of the French houses in London. But despite his impressive *new title Paribas-watchers sense* that that he has been leap-frogged by Luqman Arnold, 45, a protegé of the erstwhile Euromarket superstar Hans-Jörg Rudloff, who arrived from CSFB in 1993 as global head of investment banking.

The formidable Arnold, who (despite *his* name) is British, and who was previously reporting to Stevenson, now moves to the Paris headquarters as head of business development. Despite the dubious sounding title, it is a very serious job indeed and – the French indicate – a pretty surprising one for a mere Brit. Obviously a man to keep tabs on.

Ducking out

■ *What do senior French* politicians do when they tire of reading criticism about themselves in the press? They launch a boycott, *naturellement*.

President Mitterrand led the way by terminating his subscription to Le Monde, which had been addressing the subject of corruption in his administration.

Now Alain Juppé, the prime minister, has followed suit, ordering all those under his command to stop buying Canard Enchainé. The weekly satirical paper has been publishing a series of allegations of misuse of power by Juppé – including his demand for a 10 per cent reduction in rent on his son's apartment.

But the Canard has struck back. *To ensure that the prime minister* can remain up to date with its revelations, it has offered him three months worth of newspapers *gratis*, discreetly sent to his home address. It promises that a simple word from him will suffice to trigger a subscription for his son as well, at a 10 per cent discount.

Open and shut case

■ How's this for an excuse for a night in jail? John Sutton, body guard of Dr Richard Leakey, the *white Kenyan anthropologist with* political aspirations, was arrested earlier this week while attending *the trial of an opponent of Kenya's* President Daniel Arap Moi. His house was searched, diary rifled, *documents confiscated, and car* seized. Nothing.

Then a smart young copper spotted the incriminating evidence. Sutton was charged with "possessing a penknife without a permit".

Name recognition

■ A man carrying a pole enters the Olympic arena, but is stopped by the guards. "Are you a pole vaulter" queries one of the officers. "No German: but how did you know my first name?"

The Financial Times

100 years ago

The French budget deficit
Paris: According to the "Figaro", the Government, in order to meet the expenses of the *Madagascar Expedition, has sold* out stock on the Depots and Consignations Fund to the amount of 20,000,000 Francs and this is the reason why the 3 per cent Rentes have recently dropped, despite the absence of any particularly disturbing features in the political situation. The "Figaro" characterises this as a fraud on the State and a sure means, if persisted in, of bringing about national bankruptcy.

50 years ago

Paris bid for arbitrage
Paris: Although arbitrage operations are not yet possible here owing to exchange *regulations, the Bourse* syndicate have already contacted financial authorities with a view to renewing such operations.

The syndicate has put forward a plan for the resumption of *arbitrage on the understanding* that movements of capital are not involved. This would mean, *as in New York, that sales and* purchases must correspond in value.